LOVELY PROFESSIONAL UNIVERSITY

RETAIL STORE MANAGEMENT

Edited By

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SYLLABUS

Retail Store Management

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

- ***Store business operations*** - including managing profit and loss, facility management, safety and security, loss prevention etc.
- ***Selection of Human Resources*** - specifically recruiting, hiring, training and development, performance management, payroll, and schedule workplace scheduling.
- ***Product management*** - including ordering, receiving, price changes, handling damaged products, and returns.
- ***Team Development*** - facilitating staff learning and development.
- ***Problem solving*** - handling unusual circumstances.

Sr. No.	Description
1.	***Introduction:*** An Overview of retail operations, Stores organisation, Selection of right Location, Different layout & designs
2.	***Pre-Store opening:*** Role of operations in opening a store, Filling the store with merchandise, Concept of Distribution centre, various activities at the distribution centres
3.	***Store opening and closing:*** Store opening and closing process, Material identification system, Receiving and inspection, storage system, Preservation of materials in the storage
4.	***Retail Arithmetic:*** Quantitative terms related with a retail store and its calculation.
5.	***Stock management:*** Relevance of stock management to retail operations, Various types of stock checks, Taking care of quality inside a store
6.	***The store audit:*** Store appearance, presentation, stock, cleanliness, HR in operations
7.	***Store finance and controls:*** stock valuating, stock verification, Accounts receivable, cash management, budgeting, Day to Day cash management
8.	***Loss prevention and shrinkage control:*** Importance of security measures, Methods & ways to reduce shrinkage, reasons for shrinkage, Scrap and surplus management
9.	The customer service desk, Exchange of defective products, Loyalty Programs for a store. Different fixtures available for a retail store
10.	Contemporary issues in store management

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Unit 1: Introduction: An Overview of Retail Operations

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Objectives

After studying this unit, you should be able to:

- Have an overview of retail operations
- Discuss the essence of retail business
- Specify functions of a retailer
- Discuss for stores organization
- Describe store location and its need
- Explain selection of a right location

Introduction

Retailing is the latest buzzword among the business. It is evolving into a global, high-tech business and occupies a pre-eminent position in the economics of all modern societies. Retailing today is at an interesting cross road. Town with lower income and higher employment trends would give rise to fragmentation of the retail universe resulting in a large number of small outlets. For example: Bombay, Calcutta, Chennai, Hyderabad, and Visakhapatnam.

The growth of retailing in most countries the world over is synonymous with the growth of the information technology sector in that country, as no retailer can do justice to his business or to

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his customers unless he is able to collect and analyze the vast amount of data available to him. Retailers usually deal with very large volumes of data as thousands of suppliers, which are finally purchased by thousands of customers as well by enabling the retailer to keep track of all this information and to analyze the reports that emergence from such data. The concept of retailing however, is still under-development in India, with emphasis only being laid on distribution. The Indian retail market is quite large but highly fragmented, comprising very few large retailers.

In this unit, we will have an overview of retail operations. We will also focus on stores organization, selection of right location.

1.1 Retail Operations

It is necessary to understand that in the complex world of trade today, retail would include not only goods but also services, which may be provided to the end consumer. In an age where the customer is the king and marketers are focusing on customer delight/retailing may be redefined as the first point of customer contact.

According to Phillip Kotler "Retailing includes all the activities involved in selling goods or services to the final consumers for personal, non-business use. A retailer or retail store is any business enterprise whose sale volume comes primarily from retailing."

Did u know? IT plays an extremely critical role in the development of retail all over the world.

Retailing today is at an interesting crossroads. On the one hand, retail sales are not at their highest point in history. New technologies are improving retail productivity and global retailing possibilities abound. On the other hand retailers face numerous challenges.

1.1.1 Functions of a Retailer

Retailers play a significant role as a conduit between manufacturers, wholesalers, suppliers and consumers. In this context, they perform various functions like sorting, breaking bulk, holding stock, as a channel of communication, storage, advertising and certain additional services.

Sorting

Manufacturers usually make one or a variety of products and would like to sell their entire inventory to a few buyers to reduce costs. Final consumers, in contrast, prefer a large variety of goods and services to choose from and usually buy them in small quantities. Retailers are able to balance the demands of both sides, by collection an assortment of goods from different sources, buying them in sufficiently large quantities and selling them to consumers in small units.

The above process is referred to as the sorting process. Through this process, retailers undertake activities and perform functions that add to the value of the products and services sold to the consumer. Supermarkets offer, on and average, 15,000 different items from 500 companies. Customers are able to choose from a wide range of designs, sizes and brands from just one location. If each manufacturer had a separate store for its own products, customers would have to visit several stores to complete their shopping. While all retailers offer an assortment, they specialize in types of assortment offered and the market to which the offering is made. Westside provides clothing and accessories, while a chain like Nilgiris specializes in food and bakery

items. Shoppers' Stop targets the elite urban class, while Pantaloons is targeted at the middle class.

Breaking Bulk

Breaking bulk is another function performed by retailing. The word retailing is derived from the French word retailer, meaning 'to cut a piece off'. To reduce transportation costs, manufacturers and wholesalers typically ship large cartons of the product, which are then tailored by the retailers into smaller quantities to meet individual consumption needs.

Holding Stock

Retailers also offer the service of holding stock for the manufacturers. Retailers maintain an inventory that allows for instant availability of the product to the consumers. It helps to keep prices stable and enables the manufacturer to regulate production. Consumers can keep a small stock of products at home as they know that this can be replenished by the retailer and can save on inventory carrying costs.

Channel of Communication

Retailers also act as the channel of communication and information between the wholesalers or suppliers and the consumers. From advertisements, salespeople and display, shoppers learn about the characteristics and features of a product or services offered. Manufacturers, in their turn, learn of sales forecasts, delivery delays, and customer complaints. The manufacturer can then modify defective or unsatisfactory merchandise and services.

Transport and Advertising Functions

Small manufacturers can use retailers to provide assistance with transport, storage, advertising and pre-payment of merchandise. This also works the other way round in case the number of retailers is small. The number of functions performed by a particular retailer has a direct relation to the percentage and volume of sales needed to cover both their costs and profits.

Additional Services

Retailers ease the change in ownership of merchandise by providing services that make it convenient to buy and use products. Providing product guarantees, after-sales service and dealing with consumer complaints are some of the services that add value to the actual product at the retailers' end. Retailers also offer credit and hire-purchase facilities to the customers to enable them to buy a product now and pay for it later. Retailers fill orders, promptly process, deliver and install products. Salespeople are also employed by retailers to answer queries and provide additional information about the displayed products. The display itself allows the consumer to see and test products before actual purchase. Retail essentially completes transactions with customers.

1.1.2 Services of a Retailer

A retailer provides a number of services to the customer and to the wholesaler which are discussed below:

1. He provides ready stock of goods and as such he sells and quantity of goods desired by the customers.

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2. He keeps a large variety of goods produced by different producers and thereby ensures a wide variety of choice to the customers.
3. He relives the consumers of maintaining large quantity of goods for future period because he himself holds large stock of goods.
4. He develops personal relationship with the customers by giving them credit.
5. He provides free-home delivery service to the customers.
6. He informs the new product to the customers.
7. He makes arrangement for replacement of goods when he receive complaints.
8. He gives valuable market information with regard to taste, fashion and demand for the goods to the wholesaler.
9. The retailer maintains direct contact with the customers and so he relieves the wholesaler with regard to maintenance of direct contact.
10. He helps the wholesaler in getting their goods distributed to the consumer.
11. He is regarded as an important link between the wholesaler and the consumer.
12. He creates demand for the products by displaying the goods to the consumers.

Notes ***Retailing Issues:*** Retailers are faced with many issues as they attempt to be successful. The key issues include:

- ***Customer Satisfaction:*** Retailers know that satisfied customers are loyal customers. Consequently, retailers must develop strategies intended to build relationships that result in customers returning to make more purchases.
- ***Ability to Acquire the Right Products:*** A customer will only be satisfied if they can purchase the right products to satisfy their needs. Since a large percentage of retailers do not manufacture their own products, they must seek suppliers who will supply products demanded by customers. Thus, an important objective for retailers is to identify the products customers will demand and negotiate with suppliers to obtain these products.
- ***Product Presentation:*** Once obtained products must be presented or merchandised to customers in a way that generates interest. Retail merchandising often requires hiring creative people who understand and can relate to the market.
- ***Traffic Building:*** Like any marketer, retailers must use promotional methods to build customer interest. For retailers a key measure of interest is the number of people visiting a retail location or website. Building "traffic" is accomplished with a variety of promotional techniques such as advertising, including local newspapers or Internet, and specialized promotional activities, such as coupons.
- ***Layout:*** For store-based retailers a store's physical layout is an important component in creating a retail experience that will attract customers. The physical layout is more than just deciding in what part of the store to locate products. For many retailers designing the right shopping atmosphere (e.g., objects, light, and sound) can add to the appeal of a store. Layout is also important in the online world where site navigation and usability may be deciding factors in whether of a retail website is successful.

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- *Location:* Where to physically locate a retail store may help or hinder store traffic. Well placed stores with high visibility and easy access, while possibly commanding higher land usage fees, may hold significantly more value than lower cost sites that yield less traffic. Understanding the trade-off between costs and benefits of locations is an important retail decision.
- *Keeping Pace with Technology:* Technology has invaded all areas of retailing including customer knowledge (e.g., customer relationship management software), product movement (e.g., use of RFID tags for tracking), point-of-purchase (e.g., scanners, kiosks, self-serve checkout), web technologies (e.g., online shopping carts, purchase recommendations) and many more.

Self Assessment

Fill in the blanks:

1. In the world of trade today, retail would include not only goods but also ……
2. A retailer or retail store is any business enterprise whose ……comes primarily from retailing.
3. Retailers play a significant role as a ……..between manufacturers, wholesalers, suppliers and consumers.
4. Manufacturers usually make one or a variety of products and would like to sell their entire inventory to a few buyers to……...
5. Retailers also offer the service of ……for the manufacturers.
6. Retailers also act as ……and information between the wholesalers or suppliers and the consumers.
7. Retailers create ……for the products by displaying the goods to the consumers.

1.2 Stores Organization

An organization is a formal arrangement of roles and ranks put in place to attain some particular objectives. The arrangement of a retail organization depicts the role of employees and the mode in which the organization operates. To outline an effective retail organization structure, managers/owners must describe store objectives, recognize the tasks, categorize the tasks and jobs, and allocate responsibilities and power to different positions, and define the link between them. Organizations can have flat arrangements or vertical (tall) arrangements. A flat organization arrangement has only one or two levels of management, whereas a vertical organization has more than two levels of management. This unit will discuss forms of retail organization and number of organization levels.

1.2.1 Organization Structures

Most store and catalogue/web operations are likely to have different merchandising and inventory planning organization structures. Some of the aspects that need to be considered while integrating stores and direct channel organization structures are:

- Need to maintain single or multiple merchandising and inventory management organizations for different sales channels to determine merchandising direction.

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- Define relevant performance metrics to evaluate business functions.
- Manage ownership and accountability for category performance and profitability.
- Ensure that the new organization structure does not impede the flexibility and dynamic responsiveness of the Internet business.

Store management takes care:

1. That the required material is never out of stock.
2. That no material is available in excess that required.
3. To purchase materials on the principle of economic order quantity so that the associated costs can be minimized.
4. To protect stores against damage theft etc. This can be achieved through:
   (i) A proper purchasing practice,
   (ii) An adequate procedure of receipt and issues of materials,
   (iii) Proper methods of storing materials,
   (iv) An effective system of physical control of materials, and
   (v) A proper method of keeping stores record.

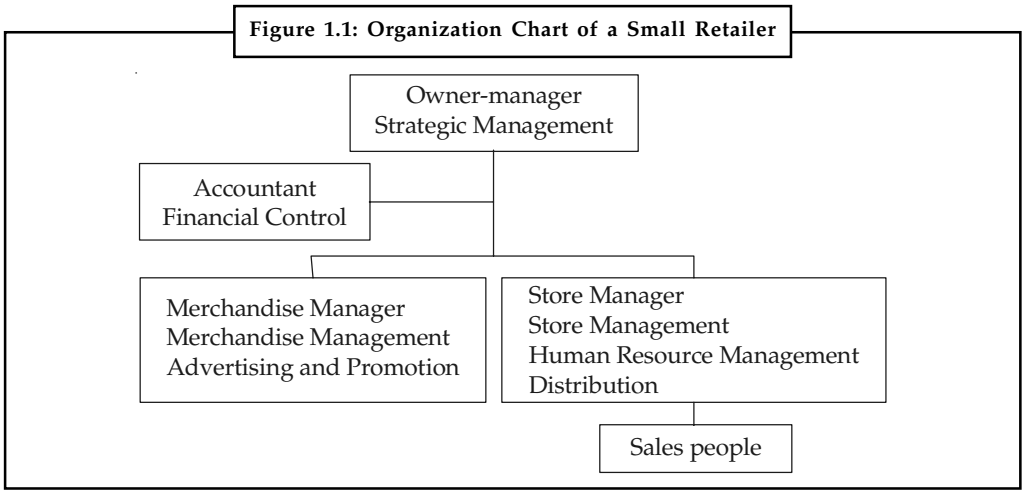
1.2.2 Forms of Retail Store Organization

Retail organization structures differ according to the type of retailer and the size of the firm. For example, a retailer with a single store will have an organization structure quite different from a national chain.

Organization of a Single-Store Retailer: Owner-managers of a single store may be the entire organization. When they go to lunch or go home, the store closes. As sales grow, the owner-manager hires employees. Coordinating and controlling employee activities is easier in a small store than in a large chain of stores. The owner-manager simply assigns tasks to each employee and watches to see that these tasks are performed properly. Since the number of employees is limited, single-store retailers have little specialization.

Each employee must perform a wide range of activities, and the owner-manager is responsible for all management tasks.

Figure 1.1: Organization Chart of a Small Retailer



Source: Everonn_Retail Management_Exhibit 6.1: Organization Chart of a Small Retailer

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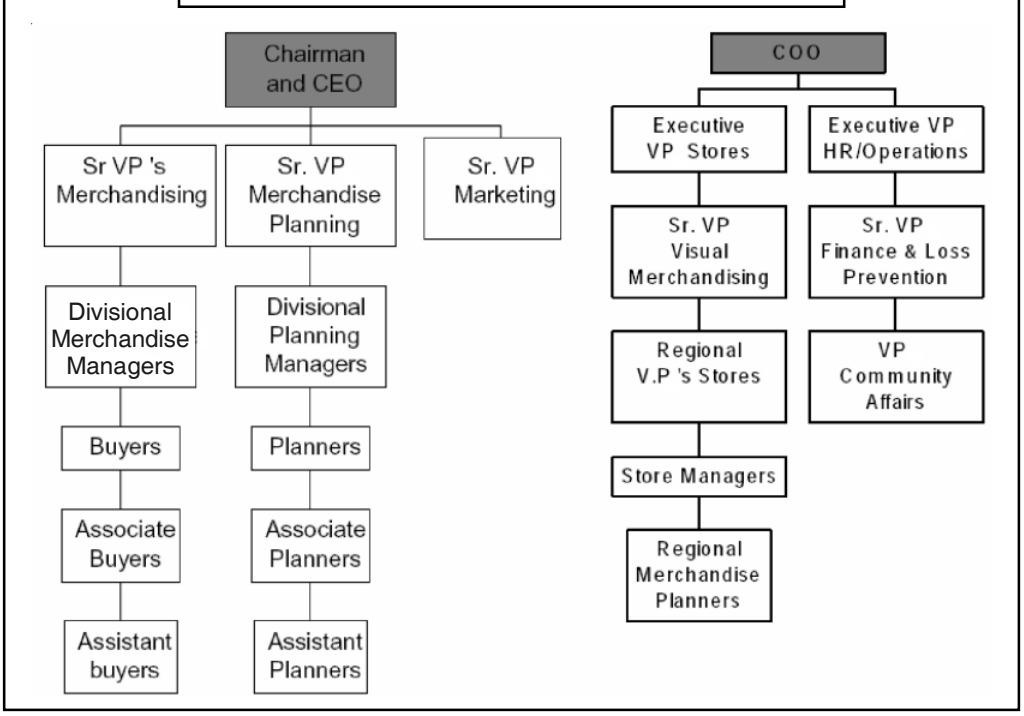
As sales increase, specialization in management may occur when the owner manager hires additional management employees. Figure given above illustrates the common division of management responsibilities into merchandise and store management. The owner-manager continues to perform strategic management tasks. The store manager may be responsible for administrative tasks associated with receiving and shipping merchandising and managing the employees. The merchandise manager or buyer may handle the advertising and promotion tasks as well as the merchandise manager or buyer may handle the advertising and promotion tasks as well as the merchandise tasks. Often the owner-manager contracts with an accounting firm to perform financial control tasks for a fee.

Organization of a Regional Department Store: In contrast to the management of a single store, retail chain management is complex. Managers must supervise units that are geographically distant from each other. In this section, we use Rich and owned by Federated Department Stores to illustrate the organization of a large, multi-unit retailer. The Rich Stores merged three regional department store chains. While the store carry the name of the regional chains, there full name of the division, we traditionally, department stores were family-owned and managed. Organization of these firms was governed by family circumstances. Executive positions were designed to accommodate family members involved in the business. Then, in 1927, Paul Mazur proposed a functional organization plan that has been adopted by most retailers. The organization structures of retail chains, including Rich management tasks into separate divisions.

Figure 1.2: Organization of a Regional Department Store Rich



Source: Everonn_ Retail Management _Exhibit 6.2: Organization of a Regional Department Store Rich

Figure 1.2 shows Rich Max have similar organization structures. Vice presidents responsible for administrative tasks, specific merchandise categories, stores, report to the chairperson and president.

In most retail firms, the two senior executives typically called the CEO and COO, work closely together in managing the firm. They are frequently referred to as principles or partners. One member of the partnership is primarily responsible for the operating divisions. In Rich

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responsible for merchandising and the COO is responsible for operations. However, these responsibilities and employees work at corporate headquarters.

Merchandise Division: The merchandise division is responsible for procuring the merchandise sold in the stores and ensuring that the quality, fissionability, assortment, and pricing of merchandise are consistent with the firm.

Figure 1.2 shows a detailed organization structure of Rich simply a more detailed view of the merchandise categories on the left side of Figure 1.2. Each senior vice president/General Merchandise Manager (GMM) is responsible for specific categories of merchandise. GMMs report directly to the chairperson and CEO, the partner in charge of the merchandising activities.

Buyers: Buyers are responsible for procuring merchandise, setting prices and markdowns, and managing inventories for specific merchandise categories. They attend trade and fashion shows and negotiates with vendors on prices, quantities, assortments, delivery dates, and payment terms. In addition, they might specify private-label merchandise or request modifications to tailor the merchandise to the retailer.

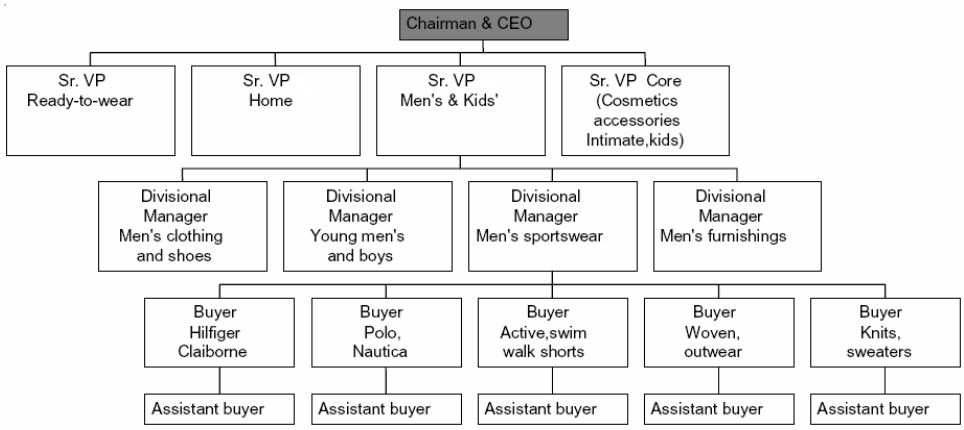
Although buyers are given considerable autonomy to "run their own business," they must adhere to an inventory budget that will vary from season to season. The budget is the result of a negotiation between the buyers and their superiors, divisional merchandise managers.

In recent years, the buyers' role in supermarket chain has evolved into a category manager. Traditional supermarket buyers were vendor focused. For example, they would just be responsible for buying merchandise from a vendor such as Campbell or Kraft. They developed close relationships with vendors and were more concerned with maintaining these vendor relationships than selling products to customers. This focus was partially caused by evaluation systems that rewarded supermarket buyers more for securing price discounts rather than sales, gross margins, and inventory turns.

Category managers are responsible for a set of products that are viewed as substitutes by customers. For example, a category manager might be in charge of all pastas packaged, or canned. Category managers are evaluated on the profitability of their category and these are motivated to eliminated buyers in most other types of retail firms have always been responsible for merchandise categories.

Thus, the term category manager is used primarily by supermarket retailers.

Figure 1.3: Merchandise Division Organization: Richs



Source: Everonn_ Retail Management _Exhibit 6.3: Merchandise Division Organization: Richs

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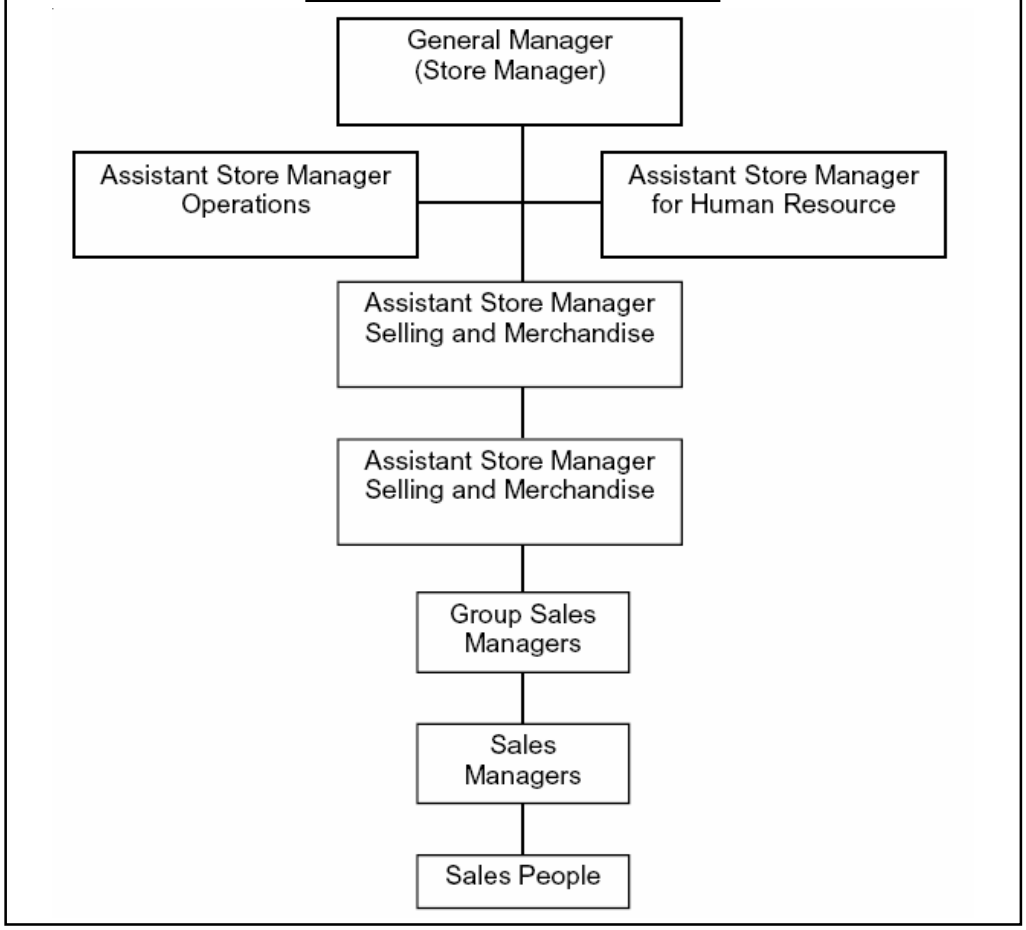
Task Visit different store organizations and study their structures on the basis of types of classifications mentioned earlier.

Planners: Traditionally, buyers or category managers were also responsible for determining the assortment stocked in each store, allocating merchandise to the stores, monitoring sales, and placing reorders. Giving this responsibility to buyers meant that the merchandise strategy within a store might not be coordinated. For example, some buyers might allocate more expensive merchandise to a store in high-income areas, but others wouldn't make this adjustment.

To address these problems, most retail chains created merchandise planners, with a senior VP of planning and distribution, who are at the same level as the merchandise managers in the buying organization. Each merchandising planner is responsible for allocating merchandise and tailoring the assortment in several categories for specific stores in a geographic area. For example, the planner at The Limited would alter the basic assortment of sweaters for the different climates in country.

Stores Division: The stores division is responsible for the group of activities undertaken in stores. Each vice president is in charge of a set of stores. A store manager, often called a general manager, is responsible for activities performed in each store.

Figure 1.4: Store Organizations: Richs



Source: Everonn_ Retail Management_Exhibit 6.4: Store Organizations: Richs

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Figure 1.4 shows the organization chart of a Rich three assistant store managers reporting to them. The assistant store manager for sales and merchandising manages the sales associated and presentation of the merchandise in the store.

The assistant manager for human resources is responsible for selecting, training, and evaluating employees. The assistant store manager for operations is responsible for store maintenance; store security; some customer service activities, such as returns, complaints, and gift wrapping; the receiving, shipping, and storage areas of the store, the general manager may perform the tasks done by an assistant store manager for merchandise.

Group sales managers, sales managers, and the sales people work with customers in specific areas of the store.

Example: A sales manager might be responsible for the entire area in which kitchen appliances, gifts, china, silver, and tableware are sold, while a group sales manager might be responsible for an entire floor of the store.

Corporate Organization of a Regional Department Store Chain

The decisions made at the corporate office involve activities that set strategic directions and increase productivity by coordinating the regional chains management information system and one private and effective than having separate systems and programs in each regional chain.

Corporate Functions Activities performed at the Federated corporate office, rather than at the regional chain level, include:

1. ***Corporate (Cincinnati, Ohio):*** Support services cover tax, audit, according, cash management and finance, internal audit, planning, insurance, economic forecasting, law, corporate communications, purchasing, store.
2. ***Merchandising and Product Development (New York):*** This function develops merchandising strategies, coordinates relationships with vendors, designs and sources private-label merchandise, and managers marketing programs for private-brand merchandise. Among Federated Clubroom, Tools of the Trade, Badge, Style & Co., and Alfani.
3. ***Financial Administrative and Credit Services Group (Mason, Ohio):*** This group provides proprietary credit cards and services for each regional department store chain. Federated has over 58 million credit card holders. The group also is responsible for payroll and benefits processing.
4. ***Federated Systems Group (Norcross, Georgia):*** This division designs, installs, and manages the information system used by all divisions.
5. ***Federated Logistics and Operations (Secaucus, New Jersey):*** Logistics coordinates and manages the logistics and distribution function as well as accounts payable, purchasing, store planning, vendor technology, and energy management and expense control.

The History of Federated Department Store Chain

Federated Department Stores was founded in 1929 as a holding company by several family-owned, regional department store chains, including Shillito Bloomingdale Lazarus, founded in 1851 in Columbus, Ohio; and Abraham & Straus, founded in 1865 in New York. Over the next 30 years, Bon Marche (Seattle), Rike Burdens (Miami), and Rich Basement (an off-price retailer) and gold Circle (a full-line discounter) and acquired Ralph West Coast supermarket chain). Each

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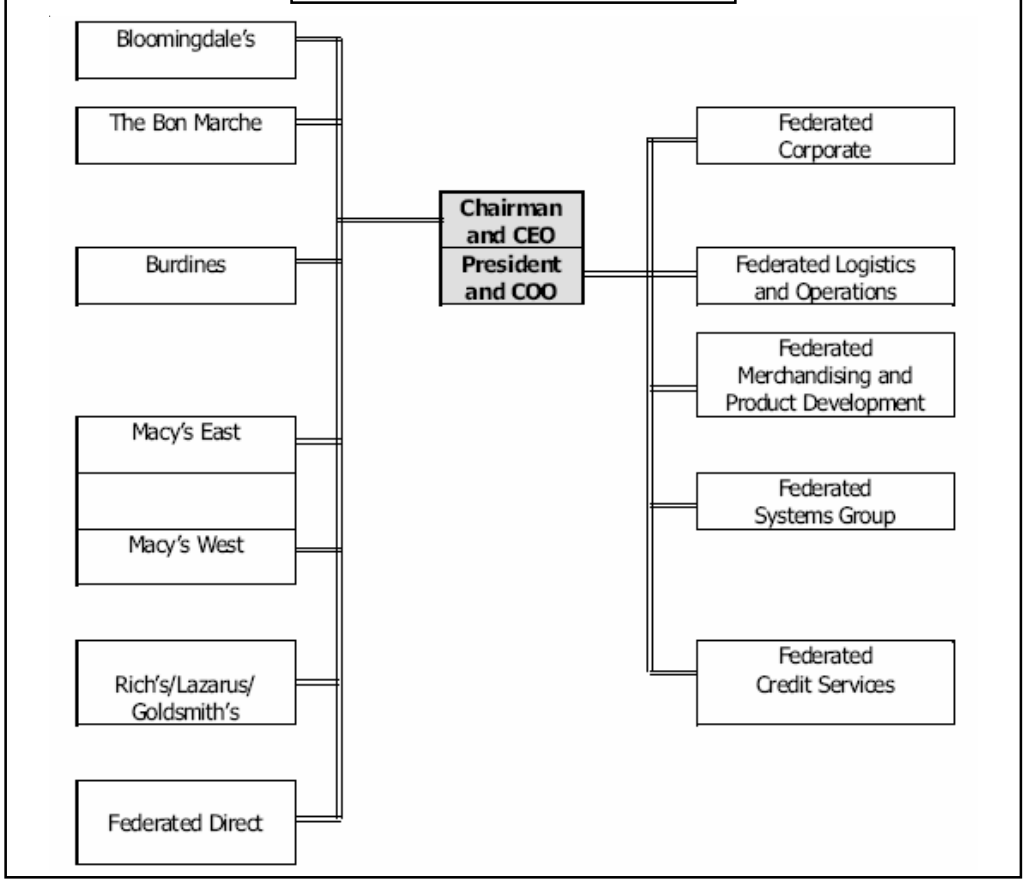
of these chains was operated as an independent division with its own buying office, distribution centre, corporate offices, and human resources policies. While the divisions were profitable, the stock price was low.

Figure 1.5: Federated Department Store



Source: Everonn_ Retail Management_Exhibit 6.5: Federated Department Store

Caselet

Retail Conglomerate Companies

In 1986, Robert Campeau, a successful Canadian real estate developer felt that the stock for retail conglomerate companies like Federated was low and he bought Allied, a similar holding company, for $ 3.5 billion, In April 1988, he bought Federated for $6.6 billion. To finance these acquisitions, he sold off over 25 chains owned by the two holding companies including, Brooks Brothers, Ann Taylor, Ralph costs. However, most of the acquisition was financed by issuing bonds and taking out loans. On January 15, 1990, the retail subsidiaries could not pay the interest on the debt and filed for bankruptcy, the largest bankruptcy in U.S. history at that time.

Under the protection of the bankruptcy court, Federated unprofitable stores, sold divisions unrelated to its core department store activities, and reduced operating costs dramatically by developing information, distribution, and buying systems used by most of the

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department store divisions. In 1992, Federated emerged from bankruptcy as one of the largest and best managed retail chains. The company has since acquired four department store chains (Hawaii) and Fingerhut, an Internet and catalogue retailer, but it maintains its focus on developing synergies among its department store divisions. Federated appears to have a long-term strategy of operating two national retail chains (Bloomingdale on the price/quality continuum. The Bullock Jordan Marsh nameplate in 1995 and 1996, and the Liberty House stores were converted in 2001.

Source: Reflections: 2001 Fact Book (Cincinnati, OH: Federated Department Stores, 2000); and personal communications with Carol Sanger, Vice President, Corporate Affairs, Federated Department Stores.

Organization Structures of Other Types of Retailers

Most retail chains have an organization structure very similar to Rich with people in charge of the merchandising, store management, and administrative tasks reporting to the CEO and COO. Only corporations that operate several different chains, such as Target, The Limited, and The Gap, have the overarching corporate structure. Large supermarket chains such as Safeway and Kroger are often organized geographically, like Federated Department Stores, with each region operating as a semi-independent unit having its own merchandise and store management staff.

The primary difference between the organization structure of a department store and other retail formats is the numbers of people and management levels in the merchandising and store management areas. Many national retailers such as at corporate headquarters and have fewer buyers and management levels in the merchandise group. On the other hand, these national retailers have many more stores than a regional department store chain like Rich have more managers and management levels in the stores division.

Example: One person is responsible for stores and operations at The Gap, in contrast to the five regional chains and one national chain (Bloomingdale Stores organization). But The Gap, with over 1,000 stores, needs more levels of store management (14 zone vice presidents, 18 regional managers, and 195 district managers) than Rich only has 76 stores.

1.2.3 Franchise Stores

Franchising is an agreement between a franchiser and a franchisee that allows the franchisee to operate a retail outlet using a name and format developed and supported by the franchiser. These stores can be restaurants, fast food outlets, apparel outlets, sports goods outlets, hypermarkets etc.

In this kind of an arrangement generally franchiser charges franchisee a lump sum fees towards usage of brand names, retailing expertise plus a royalty and franchisee has to bear all operation cost along with above and as to earn profit. Though in recent times franchiser also underwrites the losses if it occurs to avoid high attrition and motivate franchisee to invest as these kinds of arrangement require high investment. Franchisers support franchisee with merchandise planning, store management, training, manpower sourcing, IT support, interiors and advertising at national and regional level.

This format fuels growth faster as franchiser does not need to block huge capital, employ more people and hold huge stock. This model has helped people with adequate capital but without any technical knowledge to enter into retail trade. In India, UCB, Reebok, Adidas, Lee are examples for this kind of retailing.

Self Assessment

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State whether the following statements are true or false:

8. An organization is an informal arrangement of roles and ranks put in place to attain some particular objectives.
9. The arrangement of a retail organization depicts the role of employees and the mode in which the organization operates.
10. To outline an effective retail organization structure, managers/owners must describe store objectives, recognize the tasks, categorize the tasks and jobs, and allocate responsibilities and power to different positions, and define the link between them.
11. Owner-managers of a single store may be the entire organization.
12. Coordinating and controlling employee activities is easier in a small store than in a large chain of stores.
13. The owner- manager simply assigns tasks to each employee and watches to see that these tasks are performed properly.
14. A vertical organization arrangement has only one or two levels of management.
15. A Flat organization has more than two levels of management.

1.3 Selection of Right Location

In today's competitive retail environment, sales and market share preservation and growth are critical to survival. It is not surprising then that most successful retailers are constantly engaged in self-evaluation, of which an important component is ongoing assessment of a retailer's store deployment plans. Making better site location decisions for the retail sector is about staying ahead of the competition, entering a new market, or just familiarizing themselves with the new advancements in methods and technology facing their industry today.

1.3.1 Considerations in Layout Selection

Location decision is very important in retailing business because location involves large cost. Customer traffic is also affected by the selection of location; which consequently affects the volume of business. Thus, retailer should understand the importance of location decision in the context of retail business.

***Level of Location Decision*:** There are three aspects of location decision. First, a retailer will have to decide about the city where he wants to starts/shift his retail business. Secondly, he has to select particular area or location within the decided city. And finally he decides the exact site. Within any centre, one specific location will have the highest level of customer traffic.

The selection of a particular city is affected by the following factors:

1. Trading area of the city
2. Retail trade potentiality
3. Population
4. Per Capita Income
5. Distribution of income

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The selection of particular area is affected by the following factors:

1. Direction of development of the city
2. Comparative strength of competitors in that area
3. Planning regulations
4. Availability of easy routes

Factors affecting specific sites include:

1. The relationship of the site to the main area
2. Parking facility
3. Cost of the site
4. The existence of similar or complementary retailers
5. Suitability for the particular business

Standards for Location and Layout of Stores: Following are the desired standards

1. Location of the stores should be carefully decided and planned so as to ensure maximum efficiency.
2. The best location of stores is one that minimizes total handling costs and other cost related to stores operation and at the same time provides the needed protection for stored items and materials.
3. Stores location depends upon the nature and value of the items to be stored and the frequency with which the items are received and issued.
4. In general stores are located close to the points of use. Raw materials are stored near the first operation in process, materials close to the next operation, finished goods near the shipping area and tools and supplies in a location central to the personnel and equipment served.
5. All departments should have easy access to the stores and especially those which require heavy and bulky materials should have stores located nearby.
6. In big industries, having many departments stores, department possibly cannot be situated where it is convenient to deliver materials to all departments and at the same time near the receiving department: thus it is convenient to deliver materials to all departments and at the same time be near the receiving department thus it becomes often necessary to set up sub stores conveniently situated to serve different departments.
7. In decentralized stores systems each section of the industry has separate stores attached with it, whereas in centralized stores system the main store located centrally fulfils the needs for each and every department.

1.3.2 Types of Retail Location

A retailer has to make a decision about the best type of location for its decision. Major classification of retail location is as follows:

***Solus Location*:** It is also known as freestanding location. If there is no single retail outlet in the vicinity, it is called solus location. Retailers that select solus location want to avoid competition. Rent is also low at this type of location.

Notes

Planned Shopping Location: These types of locations are deliberately designed for retail business. Planned shopping centre may be categorized as shopping mall or retail part etc. These have advantage of consistent image for the shopping centre.

***Unplanned Shopping Location*:** Contrary to planned location, unplanned shopping location is characterized by fragmented ownership. It has evolved in a gradual piecemeal manner where two or more retail stores locate together on individual considerations. We may find two or three or more stores for same merchandise.

Nature of Metro Development: Because of automobile-based inter-urban dispersal, the city has evolved into a restructured form called multi-centred metropolis. Classical models cannot accommodate this new reality easily. The rapid spread of urban India owes much to the nature of the radial and circumferential road network, which results in near equal levels of convergence time across the metropolitan area, destroying the region wide advantage of the CBD. Low housing interest rates reinforced the trend towards single-family housing in the suburbs. Intercity neighbourhood redevelopment involves gentrification – property upgrading by high income settlers that frequently results in the displacement of low-income residents. Jobs are moving out with modern technology and development, and so are shopping centres and entertainment. The need for the city, as far as the middle class is concerned, has diminished. Affordable housing is a major problem in today's modern cities, and planned public housing projects have not solved big city problems. The inner city is home to the metropolitan disadvantaged and includes a few specialised services, where suburban and satellite cities house the affluent and support a range of services that were previously city-bound. Local and regional planners increasingly support the notion of increasing the supply of housing in job-rich areas, and the quantity of jobs in housing rich areas. The concept is jobs/housing balance. The suburbs create most new employment opportunities matched to the work skills of inner city residents. This is known as the spatial mismatch theory. Thus, the poor are faced with the problem of either finding work in a stagnating industrial area, the inner city, or commuting longer distances to keep up with the dispersing job market through reverse commuting. This also has an influence on the location of the retail outlets. The nature of the target segment of the retail outlet therefore determines the location of the outlet.

Lab Exercise Go to website http://delhimetrorail.info/ and study its route detail with corresponding fair for a specific distance coverage.

Locational patterns of cities include: Transportation cities aligned along transportation routes and at junctions of different types of transportation; specialised function centres that develop around a localised physical resource; uniform pattern of centres, referred to as central places that exchange goods and services with their hinterland. Central-place theory emphasises that cities perform extensive services for their hinterland. Business conducted totally within the hinterland is called settlement-forming trade. Activity that is directed to outside markets is called settlement-building trade. Business conducted with residents of the centre is called settlement-serving trade. It should be clear, what is the nature of the store that we have, in order to locate the store accordingly.

Development of Central Places: Central places serve large areas around the city. These areas are called hinterlands, tributary areas, trade or market areas, or urban fields. Areas of Dominant Influence (ADI) also called daily urban systems, is that area that describes the extent of the social, economic, and cultural ties between a city and its tributary region. Newspaper circulation and commuting are conceptually good indicators. People in the tributary area, look to the regional newspaper for information on sales and social events or to the city as an employment location. A good measure for locating outlets is to use this movement of people.

Notes

It is possible to order centres and create a hierarchy of central places. Highest order good offered by the centre determines the order of a centre. A central place hierarchy can be regarded as a multiple system of nested centres and market areas.

Did u know? Low order centres and their market areas nest under the area of higher order centres. As the hierarchical level increases, the number of trade centres decreases.

The large centres are widely spaced while the hamlets are the most numerous. The determination of the size of the retail outlet in a location especially the city implies application of the same concept. As the size of the outlet, increases in the CBD of the city, its primary trading area increases and therefore the number of such outlets are less.

***Hierarchy*:** Space preference structures measure the trade-off between a journey's distance to shop for goods and services, and the town size. The larger the town size, greater the positive mental stimulus, while the increased distance to the town centre is a negative mental stimulus. Rural residents receive a certain payoff to go a certain distance.

Task Comment upon the statement: Town size as a surrogate for the market basket of shopping possibilities that exist there measures the payoff.

A central place hierarchy of goods and services also exists inside the city. This hierarchy is the retail hierarchy, and urban residents display a similar behaviour to rural residents. Shoppers obtain low order goods from the closest places and higher order goods from higher order centres.

Typically, location models identify as "best" that new location, which maximises some measures of overall financial performance for the organisation, often the total revenue. In doing so, the model usually allows new locations of the organisation (as long as total revenue is maximised) to cannibalise revenue from old locations. While this poses no problem to the corporate-owned chain, franchise systems are different. A current franchisee would be understandably upset if a new franchisee location cannibalises revenue at his/her, no matter that system-wide revenue increases. From the franchisee's perspective, the lost sales have been pirated away, just as surely as if by a competing system. Therefore, location also plays an important role in determining franchisee site-selection decision.

Self Assessment

Fill in the blanks:

16. Location decision is very important in retailing business because location involves ..... cost.
17. Customer traffic is also affected by the selection of location which consequently affects the .....
18. Retailer should understand the importance of location decision in the context of .....
19. In .....stores systems each section of the industry has separate stores attached with it.
20. In ..... system the main store located centrally fulfils the needs for each and every department.

Notes

Case Study

Decentralization within a Book Retailer

Introduction

The largest specialist book retailer in the UK and Ireland is Waterstone's. It has more than 200 branches and employs approximately 4,200 people. Organisations are as individual as nations and societies. Their widely different cultures are reflected in their values, ideals and beliefs. Within Waterstone's, the belief is that each branch is part of the local community. In this context, the buying decisions of each branch should, therefore, directly reflect and respond to local customer demand, which gives each individual branch a sense of identity and local relevance.

Waterstone's is a familiar sight in high streets as well as in airports and on university and college campuses. All branches are tailored to meet the needs of customers in the catchment area and local market. Recent developments include an Internet bookstore, where books can be ordered electronically, and another superstore in Piccadilly that is 56,000 sq. ft. in size.

Vision

Sharing a vision enables everyone within an organisation to think ahead and be part of the plan for the future of that business. The shared purpose within Waterstone's is simple, "To be the world's best loved and most profitable Booksellers". This provides direction for the organisation to form the basis of a strong and vibrant company culture, which positions the customer as key in terms of business priorities.

The complete commitment and support of everyone within the company is required to deliver the kind of service this vision demands. Waterstone's believes people are its most valuable asset. People need to know where the organisation is going and what it is aiming to achieve.

Decentralisation

Decentralisation is the movement of power and decision-making from the centre outwards to other parts of the organisation. The belief behind decentralisation is that most decisions cannot be taken at the centre but instead must be taken on the spot by people who know the circumstances and customers. Decentralisation provides a radical challenge to the traditional methods of control and influence exerted within an organisation.

Within Waterstone's, decentralisation means that wherever possible, individual branches have the freedom to make their own decisions about how best to serve their customers and manage their part of the business. This case study looks at why Waterstone's chose to decentralise and examines the impact that this has had upon the business. It examines:

1. why decentralisation is a key response to the book industry supply chain.
2. the impact of decentralisation on how Waterstone's is structured as well as on how it operates.
3. how decentralisation helps to equip Waterstone's booksellers with the skills and knowledge that the business needs to fulfil its business priorities.

Organizational Structure

A typical retail company will have a hierarchical structure like the one shown. Dependent upon management policies, senior buyers will control the quantity and type of products

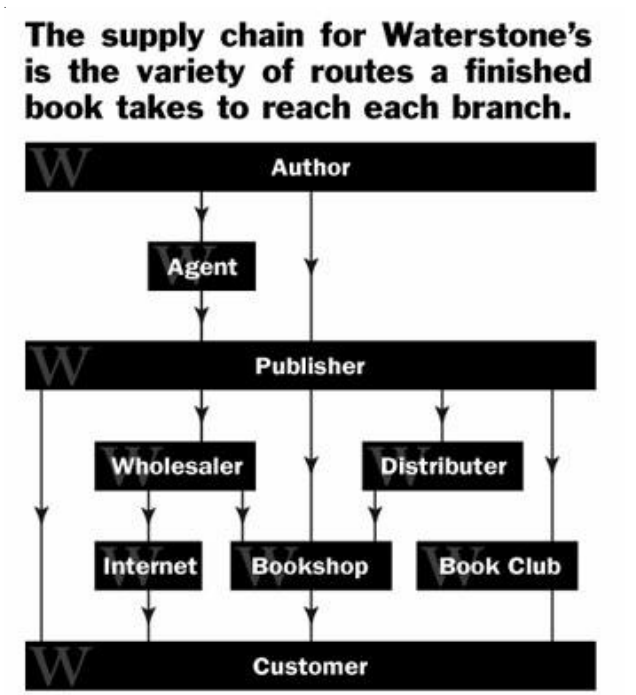
Contd...

Notes

provided, despite the fact that sales staff is the company's direct point of contact with customers. In this model, communication is one way. Waterstone's decentralization helps to invert this triangle. This method of organisation brings the customer sharply into focus. This means that:

1. customers are at the top of the hierarchy,
2. as local booksellers are the buyers at the front-line of the organisation, they are best placed to respond accurately and immediately to customers' needs,
3. communication between customers and booksellers, who are also the company's buyers, is a two way process.

Figure 1: Organization Structure



Questions:

1. Analyze the case and interpret it.
2. Write down the case fact.
3. What do you conclude from it?

Source: http://businesscasestudies.co.uk/waterstones/decentralisation-within-a-book-retailer/organisational-structure.html#axzz2I1cBDSCv

1.4 Summary

- A retailer or retail store is any business enterprise whose sale volume comes primarily from retailing.
- Good customer service is more than just being quick and having a good product.

Notes

- Segmentation divides subjects, objects or variables into various relatively homogeneous groups (e.g., segmenting customers into usage-pattern groups).
- An organization is a formal arrangement of roles and ranks put in place to attain some particular objectives.
- The arrangement of a retail organization depicts the role of employees and the mode in which the organization operates.
- Owner-managers of a single store may be the entire organization.
- Coordinating and controlling employee activities is easier in a small store than in a large chain of stores.
- Location decision is very important in retailing business because location involves large cost.
- In decentralized stores systems each section of the industry has separate stores attached with it.
- In centralized stores system the main store located centrally fulfils the needs for each and every department.

1.5 Keywords

Data Mining: It discovers the meaningful patterns and relationships in data—separating signals from noise—and provides decision-making information about the future.

ECR Concept: ECR is a comprehensive management concept based on vertical collaboration in manufacturing and retailing with the objective of an efficient satisfaction of consumer needs and category management.

Exclusive Market: Appealing to this market means appealing to discriminating customers who are often willing to pay a premium for features found in very few products and for highly personalized services.

Franchising: Franchising is an agreement between a franchiser and a franchisee that allows the franchisee to operate a retail outlet using a name and format developed and supported by the franchiser.

Online Analytical Processing: It enables users to easily and selectively extract data and then view it from different perspectives.

Retail Store: It is any business enterprise whose sale volume comes primarily from retailing.

Statistical Analysis: It refers to a collection of methods used to process large amounts of data to uncover key facts, patterns and trends.

Stocks Product Assortment: The commonly accepted definition of an efficient product assortment is one that provides sufficient product variety to meet consumer needs, while minimizing costly item duplication.

Store organization: The store organization is a formal arrangement of roles and ranks put in place to attain some particular objectives.

Text Mining: It analyzes unstructured textual data by finding and discovering the patterns and relationships within thousands of documents, such as emails, call reports, Web sites and other information sources.

Notes

1.6 Review Questions

1. Define the term retail store. Who is a retailer?
2. "Good customer service is more than just being quick and having a good product". Discuss.
3. What is the aim of using predictor?
4. Define the term Segmentation?
5. What is the objective of data mining?
6. Define the term store organization. What are its characteristics features?
7. What does arrangement of a retail organization depicts?
8. What are the essentials of an effective retail organization structure?
9. "Coordinating and controlling employee activities are easier in a small store than in a large chain of stores". Discuss.
10. What are the responsibilities of an owner-manager?
11. Differentiate between the two levels of organization arrangement.
12. Why Location decision is crucial in retailing?
13. What is customer traffic? How does it affect store location?
14. "Retailer should understand the importance of location decision in the context of retail business". Elucidate.
15. Differentiate between centralized and decentralized stores systems with suitable examples.

Answers: Self Assessment

1.	Services	2.	Sale volume
3.	Conduit	4.	Reduce costs
5.	Holding stock	6.	Channel of communication
7.	Demand	8.	False
9.	True	10.	True
11.	True	12.	True
13.	True	14.	False
15.	False	16.	Large
17.	volume of business	18.	retail business
19.	decentralized	20.	centralized

1.7 Further Readings

Books

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Unit 2: Different Layout & Designs

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Objectives

After studying this unit, you should be able to:

- Define the term Store Layout
- Discuss Different Types of Store Layouts
- Describe the Concept of Store Design
- Specify Various Forms of Store Design
- Differentiate between Exterior and Interior Store Designs

Introduction

Well-planned retail store layout allows a retailer to maximize the sales for each square foot of the allocated selling space within the store. Store layouts generally show the size and location of each department, any permanent structures, fixture locations and customer traffic patterns. Each floor plan and store layout will depend on the type of products sold, the building location and how much the business can afford to put into the overall store design. Store design has always been used to reinforce other elements of a retail strategy.

It comprises ceiling, walls, flooring and lighting, but instead of furniture retail outlet houses fixtures for the presentation of merchandise, and fittings for equipment such as tills. In choosing the materials used for the interior, retailers have to consider the type of product being sold, costs, store traffic and health and safety. The contribution of these parts of a store's exterior to an overall design can vary in importance according to the type of store format and the products on offer.

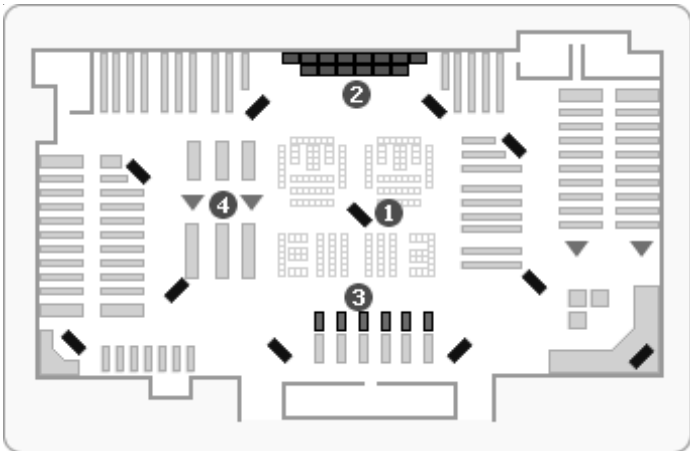
In this unit, we will discuss meaning of store layout and design. We will also focus on different types of store layouts and designs.

Notes

2.1 Store Layouts

Store layout is the way, the store or business space that is used to promote sales and to satisfy the customer. Figure 2.1 shows general layout of a retail store.

Figure 2.1: Layout of a Retail Store



Source: http://www.redmond.k12.or.us/145520121313341393/lib/145520121313341393/Ch_18_notes_ONLINE.pdf

A freeform layout is less systemized and can accommodate a wider variety of fixturing. It is also more conducive to browsing. Whilst providing increased flexibility freeform layouts can result in customers feeling 'lost' in a mass of merchandise and fixturing, and so in larger stores the merchandise areas are often broken down by a series of walkways and/or partitions. This helps customers to orientate themselves within the store and allows a certain degree of departmentalization.

Did u know? The interior of a store can be viewed in a similar way to living space.

Where a retailer has a limited range of merchandise or in situations where a high level of personal selling is required, a number of alternative approaches can be used. The first is to surround the customer with merchandise; which is sometimes referred to as the boutique layout. Alternatively, the store may be divided up into 'service stations' where a customer and sales person sit down to discuss the purchase, with the merchandise conveniently nearby to refer to. This type of layout is used in personal communications stores such as earphone Warehouse. Another approach is to house the merchandise behind a counter, a technique used in high-value merchandise stores because of the security risk.

As well as exposing customers to as much merchandise as possible, layouts can also make a contribution to the selling process by placing complementary merchandise categories adjacent to one another, and seasonal and impulse product categories near to areas of high footfall.

Self Assessment

Fill in the blanks:

1. Store layout is the way, the store or business space that is used to ..... sales and to satisfy the customer.

Notes

2. Well-planned retail store layout allows a retailer to maximize the sales for each .....of the allocated selling space within the store.
3. Store layouts generally show the size and location of each department, any permanent structures, fixture locations and customer ..... patterns.
4. A freeform layout is ..... systemized and can accommodate a wider variety of fixturing.
5. The store may be divided up into ..... where a customer and sales person sit down to discuss the purchase, with the merchandise conveniently nearby to refer to.
6. Layouts can make a contribution to the selling process by placing ..... merchandise categories adjacent to one another.
7. Where a retailer has a limited range of merchandise or in situations where a high level of personal selling is required, a number of ..... can be used.
8. The contribution of various parts of a store's exterior to an overall design can vary in importance according to the type of ..... and the products on offer.

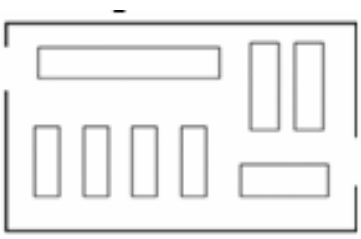
2.2 Types of Store Layouts

There are a number of different types of layouts commonly found in retail stores. The layout used will be dependent on the width and depth of the product range, the nature of the product categories sold, the type of fixturing used and the constraints of the outlet in terms of size and shape. The objective of a store layout is to maximize the interface between customers and merchandise.

Following are the basic store layouts and circulation plans that all provide a different experience:

1. ***Straight plan***: The straight floor plan makes optimum use of the walls, and utilizes the space in the most judicious manner. The straight floor plan creates spaces within the retail store for the customers to move and shop freely. It is one of the commonly implemented store designs.

Figure 2.2: Straight Plan



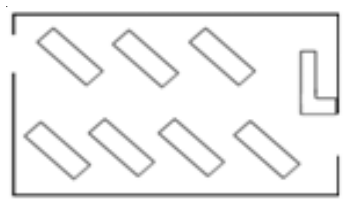
Source: http://www.managementstudyguide.com/store-design-and-layout.htm

This plan divides transitional areas from one part of the store to the other by using walls to display merchandise. It also leads the consumer to the back of the store. This design can be used for a variety of stores ranging from pharmacies to apparel.

2. ***Diagonal Plan:*** According to the diagonal floor plan, the shelves or racks are kept diagonal to each other for the owner or the store manager to have a watch on the customers. Diagonal floor plan works well in stores where customers have the liberty to walk in and pick up merchandise on their own. It uses perimeter design which cause angular traffic flow. The cashier is in a central location and easily accessible. This plan is most suited for self-service retail.

Notes

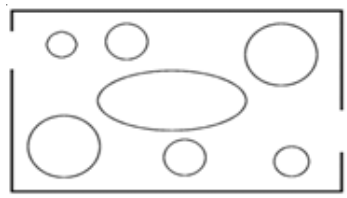
Figure 2.3: Diagonal Plan



Source: http://www.managementstudyguide.com/store-design-and-layout.htm

3. ***Curved Plan***: This is also called angular floor plan. The fixtures and walls are given a curved look to add to the style of the store.

Figure 2.4: Curved Plan



Source: http://www.managementstudyguide.com/store-design-and-layout.htm

Angular floor plan gives a more sophisticated look to the store. Such layouts are often seen in high end stores. It aims to create an intimate environment that is inviting. In this plan there is an emphasis on the structure of the space including the walls, corners and ceiling this is achieved by making the structure curved and is enhance by circular floor fixtures. Although this is a more expensive layout it is more suited to smaller spaces like salons and boutiques.

Caution The exterior of most stores includes the fascia, the store entrance, the architectural features of the building and windows.

4. ***Varied Plan:*** In this plan attention is drawn to special focus areas, as well as having storage areas that line the wall. This is best suited footwear and jewellery retail stores.

5. ***Geometric Plan:*** The racks and fixtures are given a geometric shape in such a floor plan. The geometric floor plan gives a trendy and unique look to the store. It uses the racks and the retail floor fixtures to create a geometric floor plan and circulation movement. By lowering parts of the ceiling certain areas can create defined retail spaces. This is well suited for appeal stores.

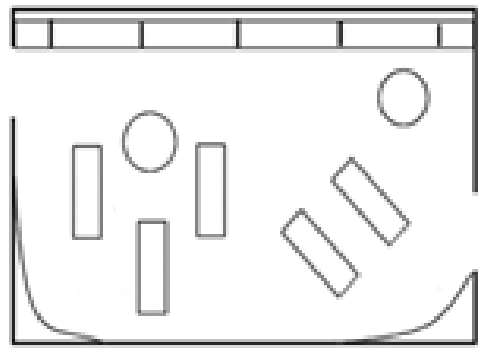
Figure 2.5: Geometric Plan

Source: http://www.managementstudyguide.com/store-design-and-layout.htm

Notes

6. ***Mixed plan:*** The mixed floor plan takes into consideration angular, diagonal and straight layout to give rise to the most functional store lay out.

Figure 2.6: Mixed Plan



Source: http://www.managementstudyguide.com/store-design-and-layout.htm

Task Visit different retail stores and notify their layout structure. Try to find out the suitability of each as per their use structure.

Self Assessment

State whether the following statements are true or false:

9. Curved floor plan works well in stores where customers have the liberty to walk in and pick up merchandise on their own. It uses perimeter design which cause angular traffic flow.
10. Diagonal Plan is also called angular floor plan.
11. Diagonal floor plan works well in stores where customers have the liberty to walk in and pick up merchandise on their own.
12. Diagonal floor plan uses perimeter design which cause angular traffic flow.
13. The geometric floor plan gives a trendy and unique look to the store.
14. The mixed floor plan takes into consideration angular, diagonal and straight layout to give rise to the most functional store lay out.
15. Angular floor plan gives a more sophisticated look to the store.

2.3 Store Design

Store designs are fundamental to any store's success. Good store design creates the vital difference in today's competitive marketplace. The exterior of most stores includes the fascia, mentioned above, the store entrance, the architectural features of the building and windows.

Notes

Caselet

Store Layout and Design

Store layout and design are factors that contribute to the uniqueness of a store. The exterior and interior of a store convey several messages about the store to the consumers. The building that houses retail store, (whether new or old) and the exterior design of the store are important aspects of the design of the store. Marquees, walkways, entrances, doors, display windows, the height and size of the building, colours and materials used, and theft prevention are some of the key factors to be kept in mind while developing a store's exterior.

Managing space is the first and foremost concern of almost every retailer, when it comes to designing the store's interior. Space is always an expensive and scarce resource. Retailers always try to maximize the return on sales per square foot. Planning a layout for the store's interior is the first step in designing the store's interior.

There are three kinds of layouts – grid layout, race track layout and freeform layout.

The interior of a store influences the purchasing behaviour of the customers to a great extent. Designing the interior of a store in such a way as to influence customer behaviour is referred to as visual merchandising. It includes optimum and appropriate use of fixtures, displays, colour, lighting, music, scent, ceilings and floor, and designing all of these properly. Merchandise presentation is the most significant aspect of store design, because it helps attract customers' attention. A retailer can resort to many forms of presentation such as idea-oriented presentation, item-oriented presentation, price lining, colour presentation, vertical merchandising, tonnage merchandising and frontal presentation.

Source: http://www.icmrindia.org/courseware/Retail%20Management/Store%20Layout-Design-Visual%20Merchandis.htm

Figure 2.7: Store Design

Source: http://www.palaydisplay.com/images/services/elements/photos/1Large.jpg

Notes

Store design has always been used to reinforce other elements of a retail strategy. For example, plush carpeting and marble used in a store denotes high-quality merchandise and may suggest a high-price positioning. Strip lighting and dump bins for merchandise brings the word 'bargains' to mind. However, as retail markets mature, the design of retail space is increasingly being used as a means by which strategic aims are reached. For example, in 2001 Safeway introduced a new store design to reinforce their position as a good-value fresh and quality grocery retailer. Wood panelling, slate tiling and pendent lighting were used in the wines and beers section to create the impression of an up-market wine cellar; baskets and barrels were used in the fruit and vegetable section to give the impression of 'market freshness' and chalkboard signage to foster the impression of good prices. It is these small details that help to refocus the attention of the shopper onto revised core values, providing a struggling grocery chain with a new lease of life to compete against other forceful players in the market (Atkinson, 2001).

Notes

Tips for Store Design and Layout

- The signage displaying the name and logo of the store must be installed at a place where it is visible to all, even from a distance. Don't add too much information.
- The store must offer a positive ambience to the customers. The customers must leave the store with a smile.
- Make sure the mannequins are according to the target market and display the latest trends. The clothes should look fitted on the dummies without using unnecessary pins. The position of the dummies must be changed from time to time to avoid monotony.
- The trial rooms should have mirrors and must be kept clean. Do not dump unnecessary boxes or hangers in the dressing room.
- The retailer must choose the right colour for the walls to set the mood of the customers. Prefer light and subtle shades.
- The fixtures or furniture should not act as an object of obstacle. Don't unnecessary add too many types of furniture at your store.
- The merchandise should be well arranged and organized on the racks assigned for them. The shelves must carry necessary labels for the customers to easily locate the products they need. Make sure the products do not fall off the shelves.
- Never play loud music at the store.
- The store should be adequately lit so that the products are easily visible to the customers. Replace burned out lights immediately.
- The floor tiles, ceilings, carpet and the racks should be kept clean and stain free.
- There should be no bad odour at the store as it irritates the customers.
- Do not stock anything at the entrance or exit of the store to block the way of the customers. The customers should be able to move freely in the store.
- The retailer must plan his store in a way which minimizes theft or shop lifting.
- Merchandise should never be displayed at the entrance or exit of the store.
- Expensive products like watches, jewellery, precious stones, mobile handsets and so on must be kept in locked cabinets.

Contd....

Notes

- Install cameras, CCTVs to have a closed look on the customers.
- Instruct the store manager or the sales representatives to try and assist all the customers who come for shopping.
- Ask the customers to deposit their carry bags at the entrance itself.
- Do not allow the customers to carry more than three dresses at one time to the trial room

2.3.1 Design in Non-store Retailing

Although non-store retail formats place some significant restrictions on the use of design in the selling environment, innovative approaches have often paid off as a source of competitive advantage. For example, when NEXT launched their NEXT Directory it was unlike anything customers had previously encountered in the UK home-shopping market. The format was more like a coffee-table book than a catalogue, with hard covers and a much higher proportion of full-page spreads than used by other mail-order retailers, and the bold and neutral corporate identity of the stores is clearly reflected in the pages. Early editions even included small swatches of material to allow customers to get a 'feel' for the garments prior to purchase. The catalogue was aimed at a more up-market customer than the typical mail order catalogue profile, with a narrowly targeted, all retailer-branded range of products.

Physical Materials in store Designing: For store-based retailers a store's physical layout is an important component in creating a retail experience that will attract customers. The physical layout is more than just deciding in what part of the store to locate products. For many retailers designing the right shopping atmosphere (e.g., objects, light, and sound) can add to the appeal of a store. Layout is also important in the online world where site navigation and usability may be deciding factors in whether of a retail website is successful.

2.3.2 Principles of Store Design

Before we move on to understanding the components of store design, we need to understand the principles of store design. Given that the ultimate aim of the retailer is to bring the customer to the store and creating an environment which makes the customer to the store and creating an environment which makes the customer come back, it is necessary to keep certain basic principles in mind while creating the store environment. These may be termed as the principles of Store Design which do draw from the Principles of Design but also from sense of what makes a store shopable.

1. The first principle of store design is Totality. The entire store has to be conceived as one unit which draws upon the retailer's very reason for existence, i.e. his vision and mission statement. Who does the retailer seek to be and which is the target audience that he seeks to tap. At the same time the type of merchandise to be retailed in the store and its price points have to be kept in mind. The entire store, right from the store entrance to the type of fixtures used to display the merchandise has to come across as one entity – this is the principle of totality
2. The second principle is of focus wherein while aspiring to create beautiful places for the consumer to shop in, the retailer should not forget that the primary focus within the store has to be the product or the merchandise. While in a store, a customer should feel comfortable he should not be awed by the ambience of the store, achieving sales is the primary step towards being sustainable in the long run.

Notes

3. The third principle is of Ease of Shopping. The store has been created for the customer, it has to be easy for him navigate, easy to access and most importantly simple to understand. No one wants to visit a store where shopping is cumbersome and tedious.

4. The last principle is of change and Flexibility. Store designs increasingly, have to be adaptable to the environment that they are a part of. The fast moving world of the consumer means that retailers are having to think more and more about how the design of their stores will cope with the short and long term future demands of their business, and the wants of their consumers. Change and flexibility have to be considered from the point of the ever changing consumer needs and store design has to be adaptable to that change.

Lab Exercise Go to website http://www.mhhe.com/business/management/thompson/11e/case/starbucks-2.html and gather information on mystery shoppers.

2.3.3 Exterior Store Design and Interior Store Design

The exterior of most stores includes the fascia, mentioned above, the store entrance, the architectural features of the building and windows. The contribution of these parts of a store's exterior to an overall design can vary in importance according to the type of store format and the products on offer.

Example: Superstores, hypermarkets and category killers rarely use window displays, but have bold fascias and easy to access entrances. Standalone stores may have to conform to strict architectural guidelines imposed by government planning authorities, whilst the centre management team may control the exterior of stores in a planned regional shopping centre. Entrances can be designed to be open and welcoming, or closed and exclusive. A key consideration for retailers is the need to be accessible for all members of society.

The interior of a store can be viewed in a similar way to living space. It comprises ceiling, walls, flooring and lighting, but instead of furniture retail outlet houses fixtures for the presentation of merchandise, and fittings for equipment such as tills. In choosing the materials used for the interior, retailers have to consider the type of product being sold, costs, store traffic and health and safety.

Example: The store interior for a food retailer needs to be easy to clean and hygienic, but able to withstand high levels of customer footfall; high quality materials are therefore likely to be a worthwhile investment. Alternatively, a young fashion retailer will place more emphasis on less expensive but fashionable furnishings materials, in the knowledge that an updated refit is likely to be necessary in less than five years. All retailers have to conform to heath and safety trading standards such as those set out under the Health and Safety at Work Act, 1974, and the Offices, Shops and Railway Premises Act, 1963.

Self Assessment

Fill in the blanks:

16. The first principle of store design is.....

17. The second principle is of .....

18. The third principle is of .....

Notes

19. The last principle is of .....

20. Superstores, hypermarkets and category killers rarely use ..... displays.

Case Study

Starbucks Corporation

Starbucks Becomes a Public Company

Starbucks' initial public offering (IPO) of common stock in June 1992 turned into one of the most successful IPOs of the year. With the capital afforded it by being a public company, Starbucks accelerated the expansion of its store network. Starbucks' success helped specialty coffee products begin to catch on across the United States. Competitors, some imitating the Starbucks model, began to spring up in many locations. The Specialty Coffee Association of America predicted that the number of coffee cafés in the United States would rise from 500 in 1992 to 10,000 by 1999.

The Store Expansion Strategy

In 1992 and 1993 Starbucks developed a three-year geographic expansion strategy that targeted areas which not only had favourable demographic profiles but which also could be serviced and supported by the company's operations infrastructure. For each targeted region, Starbucks selected a large city to serve as a "hub"; teams of professionals were located in hub cities to support the goal of opening 20 or more stores in the hub in the first two years. Once stores blanketed the hub, then additional stores were opened in smaller, surrounding "spoke" areas in the region. To oversee the expansion process, Starbucks created zone vice presidents to direct the development of each region and to implant the Starbucks culture in the newly opened stores. The entire new zone vice presidents Starbucks recruited came with extensive operating and marketing experience in chain-store retailing.

Starbucks' store launches grew steadily more successful. In 1995, new stores generated an average of $700,000 in revenue in their first year, far more than the average of $427,000 in 1990. This was partly due to the growing reputation of the Starbucks brand. In more and more instances, Starbucks' reputation reached new markets even before stores opened. Moreover, existing stores continued to post year-to-year gains in sales.

Starbucks had notable success in identifying top retailing sites for its stores. The company had the best real estate team in the coffee-bar industry and a sophisticated system that enabled it to identify not only the most attractive individual city blocks but also the exact store location that was best. The company's site location track record was so good that as of 1997 it had closed only 2 of the 1,500 sites it had opened.

Real Estate, Store Design, Store Planning, and Construction

Schultz formed a headquarters group to create a store development process based on a six-month opening schedule. Starting in 1991, the company began to create its own in-house team of architects and designers to ensure that each store would convey the right image and character. Stores had to be custom-designed because the company didn't buy real estate and build its own freestanding structures like McDonald's or Wal-Mart did; rather, each space was leased in an existing structure and thus each store differed in size and shape. Most stores ranged in size from 1,000 to 1,500 square feet and were located in office buildings, downtown and suburban retail centres, airport terminals, university campus

Contd....

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areas, or busy neighbourhood shopping areas convenient to pedestrian foot traffic. Only a select few were in suburban malls. While similar materials and furnishings were used to keep the look consistent and expenses reasonable, no two stores ended up being exactly alike.

In 1994, Starbucks began to experiment with a broader range of store formats. Special seating areas were added to help make Starbucks a place where customers could meet and chat or simply enjoy a peaceful interlude in their day. Grand Cafés with fireplaces, leather chairs, newspapers, couches, and lots of ambience were created to serve as flagship stores in high-traffic, high-visibility locations. The company also experimented with drive-through windows in locations where speed and convenience were important to customers and with kiosks in supermarkets, building lobbies, and other public places.

To better reduce average store-opening costs, which had reached an undesirably high $350,000 in 1995, the company centralized buying, developed standard contracts and fixed fees for certain items, and consolidated work under those contractors who displayed good cost-control practices. The retail operations group outlined exactly the minimum amount of equipment each core store needed, so that standard items could be ordered in volume from vendors at 20 to 30 percent discounts, then delivered just in time to the store site either from company warehouses or the vendor. Modular designs for display cases were developed. And the whole store layout was developed on a computer, with software that allowed the costs to be estimated as the design evolved. All this cut store-opening costs significantly and reduced store development time from 24 to 18 weeks.

A "stores of the future" project team was formed in 1995 to raise Starbucks' store design to a still higher level and come up with the next generation of Starbucks stores. Schultz and Olsen met with the team early on to present their vision for what a Starbucks store should be like—"an authentic coffee experience that conveyed the artistry of espresso making, a place to think and imagine, a spot where people could gather and talk over a great cup of coffee, a comforting refuge that provided a sense of community, a third place for people to congregate beyond work or the home, a place that welcomed people and rewarded them for coming, and a layout that could accommodate both fast service and quiet moments." The team researched the art and literature of coffee throughout the ages, studied coffee-growing and coffee-making techniques, and looked at how Starbucks stores had already evolved in terms of design, logos, colours, and mood. The team came up with four store designs—one for each of the four stages of coffee making: growing, roasting, brewing, and aroma—each with its own colour combinations, lighting scheme, and component materials. Within each of the four basic store templates, Starbucks could vary the materials and details to adapt to different store sizes and settings (downtown buildings, college campuses, neighbourhood shopping areas). In late 1996, Starbucks began opening new stores based on one of the four templates. The company also introduced two mini store formats using the same styles and finishes: the brevebar, a store-within-a-store for supermarkets or office-building lobbies, and the doppio, a self-contained 8-square-foot space that could be moved from spot to spot. Management believed the project accomplished three objectives: better store designs, lower store-opening costs (about $315,000 per store on average), and formats that allowed sales in locations Starbucks could otherwise not consider.For a number of years, Starbucks avoided debt and financed new stores entirely with equity capital. But as the company's profitability improved and its balance sheet strengthened, Schultz's opposition to debt as a legitimate financing vehicle softened.

Contd....

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In 1996 the company completed its second debt offering, netting $161 million from the sale of convertible debentures for use in its capital construction program.

Store Ambience

Starbucks management looked upon each store as a billboard for the company and as a contributor to building the company's brand and image. Each detail was scrutinized to enhance the mood and ambience of the store, to make sure everything signaled "best of class" and that it reflected the personality of the community and the neighbourhood. The thesis was "Everything matters." The company went to great lengths to make sure the store fixtures, the merchandise displays, the colours, the artwork, the banners, the music, and the aromas all blended to create a consistent, inviting, stimulating environment that evoked the romance of coffee, that signaled the company's passion for coffee, and that rewarded customers with ceremony, stories, and surprise. Starbucks was recognized for its sensitivity to neighbourhood conservation with the Scenic America's award for excellent design and "sensitive reuse of spaces within cities."

To try to keep the coffee aromas in the stores pure, Starbucks banned smoking and asked employees to refrain from wearing perfumes or colognes. Prepared foods were kept covered so customers would smell coffee only. Colourful banners and posters were used to keep the look of Starbucks stores fresh and in keeping with seasons and holidays. Company designers came up with artwork for commuter mugs and T-shirts in different cities that was in keeping with each city's personality (peach-shaped coffee mugs for Atlanta, pictures of Paul Revere for Boston and the Statue of Liberty for New York).

To make sure that Starbucks' stores measured up to standards, the company used "mystery shoppers" who posed as customers and rated each location on a number of criteria.

Questions:

1. Analyze the case and interpret it.
2. What is store ambience? What are its essentials?
3. Write down the case facts.
4. What do you infer from it?

Source: http://www.mhhe.com/business/management/thompson/11e/case/starbucks-2.html

2.4 Summary

- Store layout is the way, the store or business space that is used to promote sales and to satisfy the customer. Below is a picture of a general layout of a retail store.
- Diagonal floor plan works well in stores where customers have the liberty to walk in and pick up merchandise on their own. It uses perimeter design which cause angular traffic flow.
- Curved Plan is also called angular floor plan.
- Diagonal floor plan works well in stores where customers have the liberty to walk in and pick up merchandise on their own. It uses perimeter design which cause angular traffic flow.
- The straight floor plan creates spaces within the retail store for the customers to move and shop freely.

Notes

- The structure of retail space creates the constraints of the overall design.
- The interior of a store can be viewed in a similar way to living space.
- The interior of a store comprises ceiling, walls, flooring and lighting, but instead of furniture retail outlet houses fixtures for the presentation of merchandise, and fittings for equipment such as tills.
- The exterior of most stores includes the fascia, mentioned above, the store entrance, the architectural features of the building and windows.
- Standalone stores may have to conform to strict architectural guidelines imposed by government planning authorities, whilst the centre management team may control the exterior of stores in a planned regional shopping centre.

2.5 Keywords

Curved Plan: This is also called angular floor plan. The fixtures and walls are given a curved look to add to the style of the store.

Diagonal Floor Plan: Diagonal floor plan works well in stores where customers have the liberty to walk in and pick up merchandise on their own. It uses perimeter design which cause angular traffic flow.

Exterior of Stores: The exterior of most stores includes the fascia, mentioned above, the store entrance, the architectural features of the building and windows.

Geometric Plan: The racks and fixtures are given a geometric shape in such a floor plan. The geometric floor plan gives a trendy and unique look to the store.

Interior of Stores: The interior of a store can be viewed in a similar way to living space. It comprises ceiling, walls, flooring and lighting, but instead of furniture a retail outlet houses fixtures for the presentation of merchandise, and fittings for equipment such as tills.

Store Layout: Store layout refers to the way the store or business space is used to promote sales and to please the customer.

Straight Floor Plan: The straight floor plan creates spaces within the retail store for the customers to move and shop freely.

Varied Plan: in this plan attention is drawn to special focus areas, as well as having storage areas that line the wall. This is best suited footwear and jewellery retail stores.

2.6 Review Questions

1. What is store layout?
2. What are the types of store layout? Discuss each in detail.
3. What is store design?
4. Write down the principle of store design.
5. Briefly discuss interior and exterior store design.
6. Explain the factors that should be take into consideration before layout selection.
7. The structure of retail space creates the constraints.

Notes

8. What is store layout aimed at?
9. What is Diagonal floor plan?
10. "Layout plan is the silent guide" Discuss.
11. What is Curved Plan?
12. What is meant by store ambience?
13. What is meant by visual branding of a store?
14. Which Plan is most suitable for large stores that are single level?
15. Why it is advised not to play loud music at the store?

Answers: Self Assessment

1.	promote	2.	square foot
3.	traffic	4.	less
5.	service stations	6.	complementary
7.	alternative approaches	8.	store format
9.	False	10.	False
11.	True	12.	True
13.	True	14.	True
15.	True	16.	Totality
17.	focus	18.	Ease of Shopping
19.	change and Flexibility	20.	window

2.7 Further Readings

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Unit 3: Pre-Store Opening

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Objectives

After studying this unit, you should be able to:

- Describe role of operations in opening a store
- Discuss various pre store opening tasks
- Filling the store with merchandise
- Describe Concept of Distribution centre
- Analyze Various activities at the distribution centres

Introduction

Owning your own retail store is what an individual's dream is all about. Opening your own retail store is the best way to get there. It might seem impossible and scary, but there are plenty of resources available to help you reach your goal and show you how to open a new store.

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In this unit, we will discuss role of operations in opening a store, filling the store with merchandise. We will also focus on concept of distribution centre and various activities at the distribution centres.

3.1 Role of Operations in Opening a Store

Store operation is about executing the strategies and policies of the retail.

3.1.1 Store Operation Structure & Users

Following is the list of store operation structure & users.

- Store Associates
- Cashier
- Floor Manager
- Department Manager VP Store
- Store Managers Operations
- District Managers
- Regional Managers Store Inventory Store Security Loss Store Management Management Administration Prevention Projects
- VP/GM Operations
- Head Operations
- Ops Trainers
- Store HR & Admin
- Store Planners
- Store Visual Merchandiser
- Store Loss Preventions
- Project Manager
- Store Analysts
- Store Auditors

3.1.2 Operations Functions

Following is the list of operations function during the opening of a store:

- Pre Store Opening
- Store Audit
- Store Opening & Closing
- Store SOP
- Store Readiness
- Annual Business Plan
- Store Merchandise Handling

Notes

- Store Budget & Financial
- Store Administration
- Store Staffing & Scheduling
- Store Security
- Loss Preventions & Shrinkage
- Cash Management
- Customer Service

3.1.3 Pre Store Opening Task

Following activities are required to be performed while deciding to open a new store.

- Land/estate team in finalizing
- Merchandising Team the premises
- Understand Customer requirements
- Get plans and location
- Analyze buying habits
- Scout for premises
- Competition study
- Operation approvals
- Area of store/layout and target
- Legal team fulfils mandatory
- Freeze Merchandise Mix requirements
- Initiate placing orders
- Various Licenses
- Human Resource
- Project Team
- Recruitment & Training

Self Assessment

Fill in the blanks:

1. Store operation is about ..... the strategies and policies of the retail.
2. There are ..... of resources available to help you reach your goal and show you how to open a new store.

3.2 Filling the Store with Merchandise

Visual merchandising is concerned with presenting products to customers within the retail space. It is a term sometimes used as an alternative to merchandise display, but these days is

Notes

generally understood to have a wider definition encompassing all activities concerned with the presentation of the product within the retail outlet, including the choice of store layout, the method of product presentation, the choice of fixture and fittings, the construction of displays, and the use of point-of-sale material. It also has a very close connection with the allocation of space within the outlet. Visual merchandising is more important in some retail sectors than others. For example, fashion and home furnishing retailers have always devoted considerable resources to displaying products in a visually appealing way, whilst discount grocery retailers are much more concerned with space efficiency. However, the need to adapt to style-conscious twenty-first-century customers is as relevant to the way products are presented as the way a store environment is designed.

The implementation of a visual merchandising strategy within a retail business is not standardized across the industry.

Did u know? Lea-Greenwood (1998) found that visual merchandising could be the responsibility of directors of corporate communications, promotion or marketing, whilst some retailers gave the function the status of a specific directorship.

Often a multiple retailer will employ a team of regional visual merchandisers who rotate through a number of stores in a given area. The creative aspect of the visual merchandiser's role attracts people with a design training or background, although specific training for visual merchandising is becoming more common. One of the advantages of using a centralized team is that the retail brand identity can be controlled across all outlets, and visual merchandising can tie in with other corporate communication themes and messages.

Caution There is, however, a danger that the centralized approach may prevent the retailer from adapting to local themes, preferences and competition in the visual merchandising activity.

3.2.1 Merchandise Management

The primary function of retailing is to sell merchandise. One of the most strategic aspects of the retail business is to decide the merchandise mix and quantity to be purchased. Merchandise management is the process by which a retailer attempts to offer the right quantity of the right product at the right place and time while meeting the retails firm's financial goals.

Retailers need to decide on the merchandise to offer by engaging in the sorting process of assembling a range of goods and services from a variety of suppliers. The depth and width of this range will depend on the specific strategy of each retailer, who decides how different products will fit into the overall range of product they offer to market place, retailers also decide whether to include various brands in range and whether the offer of traditional or new products should be included. The width and depth decisions over the range of considerations of consumer target group.

Merchandise management focuses on planning and controlling of the retailer's inventories. It involves planning and implementation of the acquisition, handling and monitoring of merchandise categories for an identified retail organization.

The definition stresses a number of key points. As merchandise has to be acquired for future opportunities, forward planning is needed in relation to changing consumption taste and demand.

Notes

Table 3.1: Key Points

Marketing considerations	Store image, trading format, environment, retail proposition, fashion trends ,customer based, potential buyers.
Merchandise strategy options	Availability based upon assortment profile and issues of choice, quality, estimated cost etc.
Type of customer base	Items purchase, range purchased length of season, frequency of visit and purchases.
Financial considerations	Profitability a sales performance projections, stock investment and stock returns, corporate objectives and pricing.
Merchandise assortment search	Ensuring merchandise meets criteria of: required range, comparison, cost, brand policy, delivery, and financial returns.

Task The customer will have expectations of an assortment profile with issues of choice (width and depth), size, quality, exclusivity, availability and cost. Discuss.

The consequence of understanding the expectations is for these to be translated into a particular structure for the buying organization.

Merchandise Presentation Techniques: There are essentially two ways of presenting merchandise in a store. The first is to place or stack a product on some kind of fixture; stacked merchandise can be neatly arranged or, as in the case of promotional items, it can be 'dumped'. The second way is to hang the product; either directly onto a hanger, or onto a prong, using some kind of specially designed packaging. Having decided on the type of presentation to be used, it may then be necessary to use a specific method of organizing the product presentation in order to provide logic in the offering, or to enhance the visual appeal of merchandise. For example, clothes are often presented according to colour themes, and greetings cards are presented according to end use. Other techniques include grouping according to price, technical features and size to make sure the customer has confidence in the outcome of the transaction and their integrity.

3.2.2 Merchandise Offered

Following are the different offers being made with merchandise:

- ***Convenience Stores:*** Convenience stores, as the name signifies, are stores that provide a high level of convenience to their customers especially in terms of food and other essential items. Retailers realize that certain convenience goods need to be given a special status and consumers do not wish to waste time or go out of the way to buy such item. These items are usually low in cost and easy to obtain. Hence convenience store offers a limited variety and assortment of merchandise at a convenient location. Usually within a 1500 to 8000 square feet store with a speedy checkout.
- ***Super Markets:*** Conventional super markets are primarily self-service food stores offering almost all items of daily necessarily like groceries, meat products and fresh produce. The annual sales of such stores normally exceed US $2.5 million and the stores are around

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30,000 square feet in size. Although major portion of their sales comes from food items, most supermarkets have added many essential non-food items as well. However, the variety of non-food items that they offer such as health and beauty aids general merchandise is limited. Super markets usually appeal to customer as account of their low prices and because of their pioneering role in self-service retailing.

- ***Specialty Stores, Mall and other Formats:*** As the needs of the consumers grew and changed, one face the emergence of commodity specialised mass merchandisers in the 1970s. The seventies also were witness to the use of technology in the retail sector with the introduction of the barcode. Specialty chains developed in the 80's as did the shopping malls.

  Shopping mall, a late 20th century development, was created to provide for the customer's need in a single, self-contained shopping area. Although they were first created for the convenience of suburban populations, they are now found in many main city thoroughfares. A large Brand of a well-known retail chain usually serves as mall's retail flagship, which is the primary attraction for customer.

- ***Rise of the Web:*** The world of retail changed, yet again, when in 1935, Amazon.com opened the doors to a world market on the Web. With the growth of the World Wide Web, both retailers and customers confined suppliers and products from any where in the world.

  Thus the evolution of retail formats worldwide has been largely influenced by constantly changing social and economic landscape. Today's consumer when compared to the consumer of the earlier generation, is definitely more demanding, and is focused on what he wants; consumer demand is the prime reasons of the emergence of the various formats.

- ***Hypermarkets:*** The word hypermarket is derived from the French word *Hypermarche*, which is a combination of a supermarket and department store. This retail business format has evolved since its invention by retailer Carrefour in Sainte Genevieve des Bois near Paris, in the year 1963. A retail store with a sales area of over 2,500 sqm, with at least 35% of selling space devoted to non-grocery products, is termed as a hypermarket. The stores occupies an area which ranges from anywhere between 80,000 to 2,20,000 square feet and offer a variety of food and nonfood products like clothes, jewellery, hardware, sports equipment, books etc. Hypermarkets are usually part of Retail Park, along with other shops, cafeterias and restaurants. They almost always have their own petrol station on the site.

- ***Off Price retailers:*** The merchandise may be in odd sizes, unpopular colours or with minor defects. Off price retail stores may be manufacturers owned or may be owned by a specialty or departmental store. These outlets are usually seen by the parent company as a means of increasing the business. The factory outlets in case the manufacturer owns them, may stock only company merchandise.

- ***Catalogue Showrooms*****:** Catalogue retailers usually specialize in hard goods such as house ware, jewellery and consumer electronics. A customer walks into this retail showroom and goes through the catalogue of the products/that he would like to purchase. Some stores require the customer to write out the product code number and hand it over to the clerk, who then arranges for the product to the brought out from the warehouse for inspection and purpose. Some of the popular catalogue showroom retailers in the world include, Argos, service Merchandise and Best Products.

Notes

Caselet

Requirements of Starting an Efficient Small Business

Following are the factors that drive the success of small businesses.

Acquiring Start-Up Capital: An adequate supply of capital is essential as many profitable businesses fail because they don't have enough cash to pay their employees and suppliers. But what is an adequate supply of capital? The only way to tell is by doing a significant amount of research on your potential market and formally documenting this in a business plan. I'm sure you know that a business plan is a very important document that is crucial to convincing your banker to lend you money.

There are two ways to obtain a business plan. Do it yourself by amending a business plan template, or hire a professional to do it for you. Obviously the first option will be a great deal cheaper, but probably not as effective.

Finding Customers: Finding customers can be a difficult and expensive task for service business owners such as accountants, lawyers and plumbers. One cost effective marketing strategy for service business owners is to simply give all their personal contacts a few business cards. It may be surprising, just how far a personal relationship goes.

Many websites have pre-designed business card templates. The diversity and quality of these designs was outstanding. In addition, a significant savings can be obtained by finding a printing service on the Internet. We found that you could get 2,000 full colour business cards for as little as $150.

Accounting, Budgeting, and Controlling Cash Flow: Accurate small business accounting is very important for owners. It's essential that you have timely access to information that could make or break your business. If stocks are running low, you need to know about it. If a large proportion of your debtors haven't paid, you need to know about it. If you do not react to these situations quickly you may have a situation where you don't have enough money to pay your employees, or worse still someone is stealing cash out the till.

The above explanation will provide an idea of some of the tools that you can use to grow and maintain your small business. These three business aspects have a great impact on overall success and longevity.

Source: http://www.openinganewstore.com/3-requirements-of-starting-a-small-business/

Self Assessment

State whether the following statements are true or false:

3. Visual merchandising is concerned with presenting products to customers outside the retail space.
4. Fashion and home furnishing retailers have always devoted considerable resources to displaying products in a visually appealing way.
5. The primary function of retailing is to buy merchandise.
6. Merchandise management focus on planning and controlling of the retailer's inventories.

Notes

3.3 Concept of Distribution Centre

A distribution centre for a set of products is a warehouse or other specialized building, often with refrigeration or air conditioning, which is stocked with products (goods) to be redistributed to retailers, to wholesalers, or directly to consumers. A distribution centre is a principal part, the order processing element, of the entire order fulfilment process. Distribution centres are usually thought of as being demand driven. A distribution centre can also be called a warehouse, a DC, a fulfilment centre, a cross-dock facility, a bulk break centre, and a package handling centre. The name by which the distribution centre is known is commonly based on the purpose of the operation. For example a "retail distribution centre" normally distributes goods to retail stores, an "order fulfilment centre" commonly distributes goods directly to consumers, and a cross-dock facility stores little or no product but distributes goods to other destinations.

Distribution centres are the foundation of a supply network, as they allow a single location to stock a vast number of products. Some organizations operate both retail distribution and direct-to-consumer out of a single facility, sharing space, equipment, labour resources, and inventory as applicable.

Figure 3.1: Distribution Centre

Source: http://en.wikipedia.org/wiki/File:Distribution_centre_(J_Sainsbury%27s).jpg

A typical retail distribution network operates with centres set up throughout a commercial market, with each centre serving a number of stores. Large distribution centres for companies such as Wal-Mart serve 50–125 stores. Suppliers ship truckloads of products to the distribution centre, which stores the product until needed by the retail location and ships the proper quantity.

Since a large retailer might sell tens of thousands of products from thousands of vendors, it would be impossibly inefficient to ship each product directly from each vendor to each store. Many retailers own and run their own distribution networks, while smaller retailers may outsource this function to dedicated logistics firms that coordinate the distribution of products for a number of companies. A distribution centre can be co-located at a logistics centre

In contrast to traditional warehouses, a modern distribution centre is essentially an operations centre, managing the flow of information and goods between retailers and suppliers through the use of standardized bar codes, high-speed conveyors, laser scanners, and computerized databases.

Task Visit different distribution centres and analyze their functioning.

Notes

These distribution centres represent not only a significant change in the way retail firms operate, but unlike store fronts they are often not very visible to the general public. These centres are commonly located away from central cities, either outside metropolitan areas altogether or on the edge of such areas. In searching for inexpensive land, favourable leases and low tax rates, retailers can easily lose sight of the value of a diverse workforce.

The retail distribution centre, impacts the employment opportunities of minorities and women.

- In the retail industry, traditional warehouses designed to house inventory are being replaced by much large and more technologically sophisticated distribution centres that work towards maintaining a "just-in-time" inventory in stores and making the goods "shelf ready".
- Distribution centres often require greater space encouraging location away from the central city to lower priced real estate in less populated areas.

Retail Distribution Centres are described from a number of perspectives. To examine the characteristics of these retail distribution centres, it is useful to first use a measure of geographic location.

3.3.1 Distribution Channel Selection

A net of distribution or trade channel is the path or route along which goods move from producers to ultimate consumers. It is a distribution network through which a producer puts his products in the hands of actual users. A trade or marketing channel consists of the producer, consumers or users and the various middlemen who intervene between the two. The channel serves as a connecting link between the producer and consumers. By bridging the gap between the point of production and the point of consumption, a channel creates time, place and possession utilities.

The selection of distribution considers the following factors in detail:

- ***The spread and character of the market:*** The character of the market is a key parameter in deciding upon the channel of distribution. The practices in the markets, like the speed of distribution, the depth of distribution, the merchandising required for the product etc., will have an influence in the determination of the distribution channel.
- The pace of stock turnover.
- The nature of the good or service.
- ***Products factors refer to the property of the product:*** The property of the product viz., perishable or non perishable, bulky or non bulky, products that required temperature control and those which don't require, are yet another set of factors that determines the choice of a distribution channel.
- ***The cost of distribution:*** The cost of distribution adds on to the cost of the product. Thus, the distribution cost could reduce the expected margin for the sell or reduce the sales volume expected due to the higher price of the product. Thus cost of distribution is a key factor while deciding the channel of distribution.
- ***The customer specific factors etc:*** The behaviour of consumer has the utmost influence in deciding upon the choice of the distribution channel. For example for a banking company, if the target consumers are well educated and computer literate, they could consider distribution of financial products online. Even they could plan consumer education programs on financial products online. But, on the other hand if the bank focuses to capture a rural area where the target customers are more or less illustrate, the bank may have to look for a direct distribution channel.

Notes

Self Assessment

Fill in the blanks:

7. ..... are the foundation of a supply network, as they allow a single location to stock a vast number of products.
8. Some organizations operate both retail distribution and direct-to-consumer out of a single facility, sharing space, equipment, labour resources, and ..... as applicable.
9. A typical retail distribution network operates with centres set up throughout a....., with each centre serving a number of stores.
10. Many retailers own and run their own distribution networks, while smaller retailers may outsource this function to dedicated ..... firms that coordinate the distribution of products for a number of companies.
11. A distribution centre can be ..... at a logistics centre.
12. The ..... has the utmost influence in deciding upon the choice of the distribution channel.

3.4 Various Activities at the Distribution Centres

Because many distribution centres service both large and small clients, especially those which store a specific type of service as opposed to those which serve a specific company, roles and departments are generally more complicated. A simple distribution centre which serves many clients of a specific theme or type of service may include:

- ***Goods in:*** Usually containing specialized container unloading equipment and workers, including pallet wrapping, conveyor belt unloaders (as used on 40 ft shipping containers), forklift drivers, and administrative staff.
- ***Bulk:*** As a rule, a bulk department controls and ships larger orders or orders that contain only full cartons/boxes. A bulk department includes forklift truck drivers to load containers and wagons, and man-up or combi forklift trucks to unload full pallets from warehouse racking.
- ***Break-bulk:*** Break-bulk (also known as split case) is a lower-capacity version of the bulk department. Orders usually contain part boxes or items not requiring pallets. Due to the number of smaller customers a distribution centre may serve, a break-bulk department may need more workers than a bulk department. A break-bulk department usually uses trolleys or, for palleted/heavy orders, small electric PPT or walkie low lift trucks. Items shipped by break-bulk are usually stored in pick, which are usually the bottom two pick-faces of warehouse racking. A pick-face is the space on such a racking system onto which a pallet can be loaded.
- ***Export:*** An export department controls orders which are leaving the country of the distribution centre. This department is almost identical in function to a bulk or break-bulk department; however, workers in this department build pallets conforming to different standards and sizes. An export department also uses different shipping containers or haulage firms.
- ***Quality assurance:*** A quality assurance (QA) department performs periodic checks of random samples of stock to check quality, including from the warehouse racking, goods in, and returned stock. This department may also take on cycle count duties to find missing stock.

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- ***Packing and production:*** In many distribution centres it is not feasible to store stock in many different packaging styles or quantities, and while it may cost a customer more to do so, many customers, such as supermarkets, prefer their own packaging on stock. Because of this, packing benches are used to take raw items, such as a box of balloons, and pack them at a specific unit quantity, which are then packed into cartons and labelled accordingly for a customer. In many circumstances this may be more inexpensively done at a distribution centre than by a customer or client.
- ***Transportation:*** Arranges and coordinates shipments in and out of the distribution centre.
- ***Dedicated product departments:*** Divisions may be based on handling characteristics or storage characteristics, for example, refrigerated and non-refrigerated [meat and produce, frozen, dairy/deli, dry]. Each of these three areas has both shipping and receiving departments as well.

Distribution centres also have a variety of supporting departments, including human resources, maintenance/facilities operations, production control, and accounting.

3.4.1 Other Miscellaneous Activities

A Distribution centre typically has a general manager who manages the facility and typically has a number of department managers who report directly to him/her. Most distribution centres divide staff into two categories, direct labour and indirect labour. Direct labour staff executes the distribution processes, while indirect labour staff support the direct labour staff. Each department is in turn composed of supervisors and warehouse workers.

Lab Exercise Go to website http://www.njtpa.org/plan/Element/SmartGr/Brownfields/documents/Final_Report_with_photos.pdf

And, gather more information on Assessment Methodology in distribution centres.

The direct labour jobs of a warehouse can include:

- ***Unloader:*** unloads trucks and breaks down pallets as needed, using various pieces of power equipment
- ***Receiver:*** inventories and tags unloaded pallets using a mobile cart computer unit and printer
- ***Hauler:*** transports received pallets with equipment from the receiving dock to the storage racks
- ***Put away driver:*** puts product into racks with forklift
- ***Lumper:*** helps unload shipments
- ***Replenishment driver:*** pulls product from the racks and places it into the "pick slot" with forklift
- ***Order filler:*** picks product from the "pick slot" by hand and moves with power equipment
- ***Loader:*** wraps the order-filled pallets and loads trucks, using equipment

Indirect labour departments and jobs within a warehouse can include:

- ***Supervision:*** floor (process) supervision, indirect labour supervision
- ***Human resources:*** employment office and employee benefits

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- ***Facilities and housekeeping:*** maintenance of buildings
- ***Inventory management:*** tracking and placement of product
- ***Quality assurance:*** inspection and acceptance of incoming and outbound product
- ***Asset protection:*** building security and loss prevention
- ***Safety:*** insurance of safe operating practices
- ***Equipment maintenance:*** electrical, mechanical, and pneumatic maintenance of MHE
- ***Operations research:*** Industrial engineering, process improvement, labour standards
- ***Information technology:*** support of information systems

Self Assessment

State whether the following statements are true or false:

13. Break-bulk (also known as split case) is an upper-capacity version of the bulk department.
14. Orders usually contain part boxes or items requiring pallets.
15. Due to the number of greater customers a distribution centre may serve, a break-bulk department may need more workers than a bulk department.
16. An export department controls orders which are leaving the country of the distribution centre.

3.5 Distribution Centre Management System

A distribution centre management system, or DCMS, is an enterprise oriented application designed to track the activities performed in a distribution centre. It provides automated solutions for all the operations needed for efficient functioning of the distribution centres.

DCMS is a warehouse management system (WMS) designed to track and automate various distribution centre (DC) inbound, outbound and inventory management processes. The automated DCMS ensures that the goods are accurately shipped to the customers and on time. It streamlines the flow of inventory right from its receipt up to shipment in a systematic manner – recording and tracking each activity for effective control and review.

DCMS packages from many providers have been running for many years. For example, one category of major users is warehouse sites of apparel manufacturers. DCMS systems are designed for all sizes of businesses, warehouses and budgets.

3.5.1 DCMS Modules

A typical list of modules for DCMS can be as follows:

- receiving
- putaway
- order processing
- replenishment
- pulling
- restocking

Notes

- picking
- validation
- sorting
- shipping

Features: Features of a DCMS also has the following:

- crate management
- supervisory control
- reports

Benefits: An effective DCMS helps to prevent stock outs, stock pile-ups, pending orders and loss of sales due to customer dissatisfaction. It improves the warehouse productivity and increases inventory accuracy too. Other benefits include reducing operating expenses and improvement in efficiencies.

Self Assessment

Fill in the blanks:

17. A distribution centre management system, or DCMS, is an enterprise oriented application designed to track the activities performed in a .....
18. The automated DCMS ensures that the goods are accurately shipped to the ..... and .....

3.6 Best Practices in Today's Distribution Centre

The right people, processes, technology and tools help achieve the right results. In today's environment, speed through the distribution centre is critical. Whether they're called throughput centres, distribution centres, or warehouses, effective operations use best practices within the four walls of the facility—and beyond.

"We think of best practices as doing all the right things with the right tools and getting the right results. Every warehouse and distribution centre should have a best practices program. Such a program enables companies to reduce errors, labour, and cycle time while increasing accuracy and service." A best practice program, if done right, never ends. "Opportunity to improve is always there."

What's right for one company or facility—or even one product—is not necessarily a best practice for another company, facility, or product. A number of best practices do apply to many warehouses and distribution centres, however. They include the following:

1. ***Use advanced shipping notification (ASN).*** With ASN, suppliers notify receivers in advance, letting them know they are shipping a specific purchase order, and giving an expected arrival time. "While the ASN can be sent via fax, using advanced shipment notification often implies an electronic data interchange or a web-based compliance module is used as part of an overall warehouse management system," McKnight explains. And, knowing what is coming into the warehouse enables managers to replant receiving for the day. "When you don't have an infinite number of dock doors, you need to schedule inbound receipts to increase dock utilization," says McKnight. "You need to have a central point of communication, and be very clear to the carriers about who to call, and when."

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It's important that both carriers and receivers be flexible. "Arrival times can't always be controlled," McKnight explains. "It's not uncommon for the daily schedule to start slipping." Without scheduling inbound receipts, however, "you'll randomly receive product as it arrives, and may have some carriers sitting in your yard for hours," McKnight warns. "And you won't be able to prioritize your receipts." Knowing in advance what product will be received and when, combined with system-directed put away, makes it easier to treat incoming shipments appropriately. This could mean cross docking directly to shipping, or using the product to replenish a pick location that's below minimum. Or the system may direct you to put the product into a reserve slot, for example, consolidating a less-than-unit load put away in a location that already contains the same product. Of course, this assumes that you're not violating lot number integrity or first in, first out rotation requirements.

2. ***Implement a vendor compliance program.*** "A vendor compliance program goes hand in hand with advanced shipping notification," McKnight says. "You want notification ahead of time, and you also want to communicate with vendors exactly how their product should arrive." This may include specific labelling requirements, and standard case quantities for each individual item. Best practice distribution centres integrate operations with their suppliers.

   "This way, suppliers help them achieve maximum throughput and maximum efficiency, in a minimum amount of time," Derewecki says. Working with suppliers so they provide product configured for easy handling within your facility is key. "A vendor compliance program needs to be a collaborative effort that involves procurement as well as DC operations," says McKnight. Companies often hire a permanent vendor compliance manager responsible for monitoring and measuring vendor performance, looking at what percentage of the vendor's purchase orders comply with requirements, and where they're complying. "The goal is to get to 100-percent compliance, and to increase the supplier base that participates in your compliance program," McKnight explains. While direct communication with the supplier typically occurs through merchandising or procurement, the DC identifies issues and provides feedback to the merchandising or procurement representative who communicates with the vendor.

3. ***Use automatic data collection technology.*** "People writing numbers on pads of paper or keying strings of numbers into a keyboard is a bad sign," McKnight says. The benefits of automatic data collection—via bar code and radio frequency identification—are well-established, including increased productivity and accuracy and lower labour costs. But plenty of companies still haven't implemented automatic data collection. "Some organizations with 30,000 or 40,000 item numbers and multiple facilities are still convinced they're better off without technology," McKnight says.

4. ***Preplan picking waves.*** "Picks should be pre-planned, so companies have the right number of properly equipped pickers," Derewecki suggests. A facility may have separate zones for full pallet, case, and individual item picking. "Balancing those various zones with the proper equipment is a lot of science and a little bit of art," he says. Continually monitor the picking operation throughout each shift to make adjustments as needed, such as shifting pickers from full pallet to case picking to handle a surge.

5. ***Record every product movement as a transaction.*** "Any time you move product in the warehouse, the move needs to be reflected by a transaction," McKnight says. Loosely run facilities may scan product when it's received and put away, but not scan further moves within a transaction, affecting the integrity of inventory data.

6. ***Use a hands-free order selection process.*** "Having operators hold a piece of paper, read its contents, then go to a picking location is inefficient," McKnight says. "Even using a handheld

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RF gun, workers have to scan, set the gun down, and then make their pick." In facilities where the technology is appropriate, McKnight recommends hands-free order picking enabled by technology such as wrist-mounted RF units, voice pick, and pick- or put-to-light order fulfilment systems.

7. ***Minimize touches.*** Several techniques help eliminate touches in the warehouse, including picking to a shipping carton rather than picking to a tote. A robust warehouse management system can enable picking directly to the carton, eliminating dedicated packing stations. Also consider using print-and-apply labeling systems that print labels on the fly, and offer in-motion weighing and manifesting, as well as semi-automated or automated sealing/taping stations, all of which eliminate touches.

   "Suppose it's a loose pick operation. The order is picked into a system-designated repack carton, and is scanned and confirmed at the pick point. Essentially the pick-pack carton is conveyed to a dunnage fill and sealing operation, then on to an automated manifested operation," Derewecki says.

8. ***Have portions of orders arrive simultaneously on the doc.:*** Various portions of orders—full pallet, case pick, and loose pick—should arrive as closely as possible on the dock, so the order goes directly to the trailer rather than being set down. "It's easier said than done, however," Derewecki admits. "Imbalances in order flow occur from order to order, day to day, hour to hour, and can prevent this from happening. Nonetheless, getting portions of the order to arrive simultaneously should be the objective, with a system that is flexible enough to absorb slight timing differences when necessary."

9. ***Use system-directed replenishment.*** If the inbound product isn't put into a pick location immediately, using system-directed replenishment is a best practice. System-directed replenishment is based on real-time information that looks at the pick slot's stocking condition and the quantities that will be picked in the next wave, putting you one step ahead of the order picker. Information systems should drive replenishment so the location is never out of stock when pickers are picking.

10. ***Evaluate crossdocking.*** Crossdocking can be a best practice in certain industries, notes Marc Wulfraat, a senior partner with KOM International, a global logistics and supply chain management firm headquartered in Montreal. Crossdocking can be used for fast- or slow-moving product, and includes crossdocking of back-ordered product, or product prepared by your supplier for your customer; reverse line picking; and other functions.

11. ***Consider dynamic slotting.*** Slotting a stock keeping unit in the optimum location requires ongoing analysis. As items move through the maturity cycle, their velocity changes. Other items are seasonal in nature; slow-sellers may become fast sellers during peak months of the year. Derewecki recommends a system that generates exception reports to make ongoing slotting changes.

12. ***Manage returns.*** Returns management is another important best practice area. Warehouse managers need to be able to control the returned goods inventory so they know what is coming back into inventory and can be sold, what requires repair, and what needs to be disposed of.

13. ***Implement an ongoing cycle count program.*** A good, ongoing cycle count program enables you to eliminate taking a physical inventory count. While many firms do cycle counting, they have not yet eliminated the physical inventory. Doing so cuts time and costs substantially.

14. ***Use best practices in measurement.*** Be careful how you develop metrics and measure performance.

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15. ***Continually evaluate requirements.*** "You can't design an operation and walk away for five years before you look at it again," Derewicki says. "Customer requirements keep changing and accelerating. That means you need to be looking at your customers' requirements every few months to see how they are changing," Derewecki says.

Best practices enable companies (large and small both) to achieve results in their distribution centres and warehouses.

Self Assessment

State whether the following statements are true or false:

19. The right people, processes, technology and tools help achieve the right results.

20. In today's environment, speed through the distribution centre is critical.

Case Study

Starting or Buying a Retail Business

Retail businesses cover a huge group of stores that sell every product known to man. Retail stores can be in the grocery business or sell parts for the automobile. The retail business that you want to own should be in an area of interest to you so that you approach it with an inner passion. If you love messing with cars then a parts business would be a retail business you could enjoy. The same could be said for antiques or rugs. The products your store would sell depend on the knowledge you bring to the business. Specific interest in certain things that people will buy will give you an edge when speaking to customers. If you were an expert in a certain field this would be a natural area to sell products to the customers. Finding a business for sale in a category may take a business broker to find or the buyer could start one up from the ground up.

There are so many retail categories that you will need to speak with a business broker to get an idea of the businesses that may be for sale. You may go looking for one type of business and find another that looks even better. You would also be wise to check the local papers for businesses for sale by owner. Another choice is the large number of franchises that are available to a retail store buyer. There are advantages to a franchise store in this crowded field of retail outlets.

If you are of the mind to start one of your own, you will have to be very careful about the location so as to get a shot at traffic that passes the store. A shopping centre with a large traffic base like a name grocery store would be a good place for almost any kind of retail store. Location is extremely important in the retail store business. The passing traffic can make a store or kill it off. The lack of traffic is hard to overcome for most retail stores. A unique niche store will also get business if it is a one of a kind for the area. People will drive out of their way to get to a special store that sells what they are looking for. If your store fits that bill, you will get customers. A me-too store will have a difficult time in an out of the way location.

Another way to look for a retail store is to look at the ones that are successful in your area. Why do they have a following and is their product line different than other stores. Try to think of what you could do to be unique in your area and eliminate the me-too look for your business. A really different store can do well if there is a need for the products it sells. Difference for just that is not going to hack it. Find a need and fill it is a standby statement for success.

Contd....

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How to find the right business for you?

Make a list of retail type businesses you would not like running and then do the same for the ones you would like to run. The list that you like is the areas you should concentrate on. Liking what you do and making money is the likely step to being happy with your company. It is also a business if other factors are reasonable, you will have a very good chance of success running. Making money in a business that you do not like is not enough for most people. Over time they will come to dislike going to work and will eventually sell out.

Another factor that is not always considered by a new owner is the hours you will need to be at work. Some one always needs to be there during store hours. If you have a large older family this may be an easy problem to solve. On the other hand if your spouse has a job and you are the only one available you will be elected to work the hours that need to be covered. This may be necessary at the beginning as you may not be able to have all the employees you need to cover the store hours. Some people in the food franchise business have discovered that all they purchased was a gruelling job with endless hours of work. If you were purchasing a successful existing business with employees, you would be wise to find out what the staff plans to do when you take over the company. You really need to find out what key employees are planning. This could be critical to the continued success of the company and keeping the business on an even keel.

A great suggestion right after you take over is to have a meeting with all of the employees to introduce yourself and discuss any significant changes you plan to make in the near term. You would be smart to keep changes at a minimum for a while if the business is already doing very well. Change to show who is boss is a stupid thing to do.

Money makes the deal happen

Money is the key ingredient when buying a business. A cash deal will be the cheapest and the easiest to complete. Finding additional money over what you can put up is the next common hurdle that a new owner has to face. Some would-be owners have other assets that they can use as collateral to make a loan. Other potential owners will approach the business lenders that can be found on the Internet. Many will have spoken with their banker or relatives. If you can get the extra money from disinterested third parties you should be able to buy the business for a better price since you are offering a cash-out deal. Bringing the needed money to the table makes for a better bargaining position.

Buying on terms from the owner will usually cost more money in the price and interest. Many owners do not want to stay connected and will not consider a terms deal. The best you can do is making the offer and see how the current owner replies.

Conclusions

The retail business is a smorgasbord of possible business ventures. The yellow pages of any major city will verify the huge number of possible business types. It does not matter what your interest are, you will find a business to help you with your needs. This opens the door for you to either buy or start a business that you have an interest in owning. Your basic interest will help you live with the business once you own it. It is a strong factor in the success of the business. Running a business you like will be very helpful in facing the day each morning when you get up and have to go to work.

The wonderful world of retail business is so diverse that there is room for just about any kind of retail business. People with very specific needs will go to special retail shops and those with usual needs to go to the stores that are most convenient for them to go to. This area of ownership really comes down to the interest of the owner.

Contd....

Notes

Questions:

1. Analyze the case and interpret it.
2. What do you infer from it?
3. Write down the case facts.

Sources: http://www.openinganewstore.com/starting-or-buying-a-retail-business/

3.7 Summary

- Store operation is about executing the strategies and policies of the retail.
- Fashion and home furnishing retailers have always devoted considerable resources to displaying products in a visually appealing way.
- The primary function of retailing is to sell merchandise.
- Retailers need to decide on the merchandise to offer by engaging in the sorting process of assembling a range of goods and services from a variety of suppliers.
- Merchandise management focus on planning and controlling of the retailer's inventories.
- There are essentially two ways of presenting merchandise in a store.
- Distribution centres are the foundation of a supply network, as they allow a single location to stock a vast number of products.
- A distribution centre management system, or DCMS, is an enterprise oriented application designed to track the activities performed in a distribution centre.
- The right people, processes, technology and tools help achieve the right results.
- In today's environment, speed through the distribution centre is critical.

3.8 Keywords

Automated DCMS: The automated DCMS ensures that the goods are accurately shipped to the customers and on time.

Break-bulk: Break-bulk (also known as split case) is a lower-capacity version of the bulk department.

Convenience Stores: Convenience stores, as the name signifies, are stores that provide a high level of convenience to their customers especially in terms of food and other essential items.

Distribution centres: Distribution centres are the foundation of a supply network, as they allow a single location to stock a vast number of products.

Distribution centre management system: A distribution centre management system, or DCMS, is an enterprise oriented application designed to track the activities performed in a distribution centre.

Merchandise management: Merchandise management is the process by which a retailer attempts to offer the right quantity of the right product at the right place and time while meeting the retails firm's financial goals.

Store operation: Store operation is about executing the strategies and policies of the retail.

Notes

Super Markets: Conventional super markets are primarily self-service food stores offering almost all items of daily necessarily like groceries, meat products and fresh produce.

3.9 Review Questions

1. Define the term Store operation.
2. What are the different resources available to help you reach your goal and show you how to open a new store?
3. What is visual merchandising concerned with?
4. What are fashion and home furnishing retailers' responsibilities?
5. What are the primary functions of retailing?
6. "Retailers need to decide on the merchandise to offer by engaging in the sorting process of assembling a range of goods and services from a variety of suppliers". Elucidate.
7. "Merchandise management focus on planning and controlling of the retailer's inventories". Discuss.
8. What are the essential ways of presenting merchandise in a store?
9. What are distribution centre?
10. "Distribution centres are the foundation of a supply network". How?
11. A typical retail distribution network operates with centres set up throughout a commercial market, with each centre serving a number of stores.
12. How will you comment for the statement that a distribution centre can be co-located at a logistics centre?
13. What are break bulk? What is the function of an export department in distribution centre?
14. Discuss the significance of distribution centre management system. What does an automated DCMS ensure?
15. In today's environment, speed through the distribution centre is critical. Elaborate.

Answers: Self Assessment

1.	executing	2.	plenty
3.	False	4.	True
5.	False	6.	True
7.	Distribution centres	8.	inventory
9.	commercial market	10.	logistics
11.	co-located	12.	behaviour of consumer
13.	False	14.	False
15.	False	16.	True
17.	distribution centre	18.	customers, on time
19.	False	20.	False

Notes

3.10 Further Readings

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Unit 4: Store Opening and Closing

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Objectives

After studying this unit, you should be able to:

- Define store opening and closing process
- Discuss material identification system
- Describe receiving and inspection
- Relate storage system
- Explain preservation of materials in the storage

Introduction

In a retail environment, opening and closing times present unique security risks. At these times, employees are particularly vulnerable to robbery. The following policy can be modified for any retail business that stores cash and valuables such as banks and jewellery stores.

This procedure assumes that the store has an alarm system designed to arm/disarm the premise alarms (motion detectors, door and window contacts, etc.) and burglar alarms (safes, vaults and other storage containers) separately. The policy can easily be modified to accommodate other alarm system configurations.

In this unit, we will discuss store opening and closing process, material identification system, receiving and inspection, storage system. We will also focus on preservation of materials in the storage.

Notes

4.1 Store Opening and Closing Process

How to close a retail store? Opening a retail store really depends on where you live. Each state has their own commerce laws and policies. To open a retail store, you need a legal organization for your business such as sole proprietor, partner or corporation. The name of your business and tax identification number are required. You also need to decide on what you will be selling, location, employees, wholesaler and a business plan.

4.1.1 Essentials of Store Opening

Following are the essentials of store opening:

- At least two employees must be present to open the facility. One employee will enter the facility, while the other waits outside in a locked vehicle with access to a mobile phone.
- The outside employee will maintain a clear view of the facility and wait for the predetermined all clear signal from his/her associate.

Caution If the outside employee notices anything suspicious, or does not see the all clear signal in a reasonable period of time, he/she will immediately call 911 and then call the company's security department.

- Upon entering the facility, the inside employee will relock the front door and disarm the premise alarm system. If the employee is threatened while disarming the system, he/she will enter a duress code into the alarm system keypad.
- After disarming the premise alarm system, the employee will walk around premise to look of signs of intruders or forced entry. The employee will pay special attention to rest rooms, offices, and other areas where an intruder may hide. If an intruder is suspected, or a sign of forced entry is noticed, the employee will immediately leave the facility then call the company's security department.
- After checking the interior of the facility the inside employee will post the predetermined all clear signal. The signal must remain visible until all scheduled employees have reported for the day.
- Safe and vaults should be disarmed at the latest practical time. If an employee is threatened while disarming the vault he/she will enter a duress code into the alarm system keypad.
- The front door will remain locked until opening time.
- Before opening for business, all camera views will be checked to make sure cameras are aimed properly. The DVR will also be checked to verify that it is recording. Any problems with the cameras or DVR will be reported to the security department immediately.

4.1.2 How to Close a Retail Store?

Want to know how to close a retail store? Maybe a business isn't working out, or maybe you're hoping to make some cash by closing a store and moving on to a better venture. Regardless of your reasons, make sure you follow the right procedures to close your store and maximize your return.

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Make Sure you're covered from a Legal Sense

In some circumstances, you'll need to make sure you're legally permitted to close a store. Franchises, for example, must satisfy certain legal requirements, or you may be obligated to continue paying for a lease on a store that has closed months ago. Examine all contracts you've signed relative to your store, and make sure you're covered from a legal sense. If you're not sure, consult a lawyer, or hire a consultant who specializes in closing a business. The legal repercussions can be bleak, so it's vital to proceed properly instead of closing first and dealing with the legal questions later.

Know Your Financial Liabilities

You don't want to close a business and owe your creditors money, so make sure you know your financial liabilities before you close. Find out exactly what you owe to whom, so you know what you need to make in order to close your store in the black. If your existing inventory isn't enough to cover your financial liabilities, consider a consultant to advise you on the best way to proceed. You may also want to contact your creditors to negotiate a partial payment if closing the business won't pay them off completely.

Schedule an Inventory Liquidation Sale

You don't want to close a retail store with inventory still on the shelves, as you're liable for that inventory, and keeping it around is a waste of money. Schedule a closing sale to liquidate your inventory. Make sure you've got a full, attractive inventory; old or out-of-date inventory sells poorly, so you might have to spend money to make money. You'll need to cut prices, but don't cut prices too low too early, or you won't have any room to cut them further.

Advertise the Heck Out of Your Retail Store Closing

An inventory liquidation sale is useless if people don't know about it. Advertise, advertise, and advertise to make sure people know about your sale. Put signs on the street. Buy television time if you can afford it and your inventory is warranted. Add news about the liquidation sale to your Web site. E-mail your customer list. Utilize any existing advertising channels to notify customers, and get the word out about your closing sale.

Consider Your Equipment

If you're closing a business and don't intend to re-use the equipment, don't forget to sell it. You might be able to sell shelving or displays at a liquidation sale, or you may need to contact a company that deals in store equipment. If you know of another store that's opening, you may be able to sell your equipment to the new store and get a decent deal. Otherwise, plan to sell your equipment to the highest bidder, and realize that you'll likely take a loss on selling it.

4.1.3 Essentials of Store Closing

Following are the essentials of store closing:

- At closing time, one employee will lock the customer entry door(s) from inside.
- An employee will be stationed at the front door to let any customers remaining in the facility out one at a time.
- Employees should take special notice of any customers that seem to be loitering or intentionally trying to be last in line.

Notes

- Anyone who seems to be intentionally loitering should be reported to the manager.
- No customers will be admitted after the doors have been locked. Any employees attempting to gain entrance must show proper identification. No vendors or service technicians will be allowed access unless they have been given prior authorization.
- After the final customer has left, and the front door has been locked, one employee will conduct an initial walk-through of the area.
- Special attention will be paid to restrooms, closets, employee lounge, storage rooms and any areas where individuals may be hiding.
- One employee will be designated to conduct a final walk through of the premises before final closing.
- At this time, the employee will confirm that all cash, negotiable items and valuables have been properly stored and that all safes and cabinets have been locked.
- The alarm system controlling the safes and vaults will be armed at this time.
- Prior to leaving, all lights should be turned off, except for those lights which will allow the lobby to remain visible from the street after hours.

Did u know? Two or more employees will remain in the facility until final closing. Before leaving, one employee shall arm the premise alarm system and verify that the employee exit door is locked from outside.

Self Assessment

Fill in the blanks:

1. In a retail environment, opening and closing times present unique ..... risks.
2. Opening a retail store really depends on .....
3. Anyone who seems to be intentionally loitering should be reported to the .....

4.2 Material Identification System

Material identification is the process of identifying the requisite retail store material. Processing time starts when requisitions are ordered. It ends when the material is delivered and received by the customer. In this time limit, technical research, requisition preparation, breakout of material, and delivery must be accomplished. Therefore, one cannot spend most of the time allowed in material identification.

Proper material identification is essential to the requisitioning and receipt of the correct item. One must understand the terminologies used in material identification.

Material cognizance: The term material cognizance refers to the inventory manager and technical advisor of each category of material in the supply system.

Notes Material is managed according to category and its intended use. An inventory manager is assigned for each category of material, and has overall responsibility for all

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items within the category. The inventory manager is also called "material cognizant" within the supply system. All items in the supply system have an assigned two-position cognizance symbol code. This code identifies the inventory manager and the stores account in which the material is carried. Cognizance symbols are two-character, alphanumeric codes prefixed to national stock numbers. The first character of the cognizance symbol identifies the stores account.

Self Assessment

State whether the following statements are true or false:

4. Material identification is the process of identifying the requisite retail store material.
5. The term material cognizance refers to the inventory manager and technical advisor of each category of material in the supply system.
6. Cognizance symbols are three-character, alphanumeric codes suffixed to national stock numbers.

Caselet

Starbucks Corporation: The Store Expansion Strategy

In 1992 and 1993 Starbucks developed a three-year geographic expansion strategy that targeted areas which not only had favourable demographic profiles but which also could be serviced and supported by the company's operations infrastructure. For each targeted region, Starbucks selected a large city to serve as a "hub"; teams of professionals were located in hub cities to support the goal of opening 20 or more stores in the hub in the first two years. Once stores blanketed the hub, then additional stores were opened in smaller, surrounding "spoke" areas in the region. To oversee the expansion process, Starbucks created zone vice presidents to direct the development of each region and to implant the Starbucks culture in the newly opened stores. All of the new zone vice presidents Starbucks recruited came with extensive operating and marketing experience in chain-store retailing.

Starbucks' store launches grew steadily more successful. In 1995, new stores generated an average of $700,000 in revenue in their first year, far more than the average of $427,000 in 1990. This was partly due to the growing reputation of the Starbucks brand. In more and more instances, Starbucks' reputation reached new markets even before stores opened. Moreover, existing stores continued to post year-to-year gains in sales.

Starbucks had notable success in identifying top retailing sites for its stores. The company had the best real estate team in the coffee-bar industry and a sophisticated system that enabled it to identify not only the most attractive individual city blocks but also the exact store location that was best. The company's site location track record was so good that as of 1997 it had closed only 2 of the 1,500 sites it had opened.

Source: http://www.mhhe.com/business/management/thompson/11e/case/starbucks-2.html

4.3 Receiving and Inspection

Receiving is an act of taking possession of goods in order to stage them for inspection or place them into inventory.

Notes

Example: A worker on the receiving dock who signs for goods provides the acknowledgement that the goods were delivered, not that they were "accepted".

Receiving staff must ensure that the goods delivered to the department match in every detail to that described on the purchase document and immediately notify the buyer when the products do not match the purchase document. Product substitutions, over shipments or under shipments must not be accepted without being properly documented. A purchase document amendment must be executed.

A standard receiving package should, at a minimum, contain the following documentation and be distributed to both the accounting and purchasing offices for payment and procurement file documentation:

- The invoice or packing slip
- The receiving copy of the purchase document
- A completed Stock Received Report

Notes If the freight terms required the consignee to pay the shipping costs (FOB Origin), the bill of lading/delivery receipt verifying shipping costs must be included as part of the receiving documentation.

Packing slips must be included in all shipments received by a department. At a minimum and in accordance with the standard State's General Provisions, the supplier must provide the following information on the packing slip to ensure departmental receiving staff can verify products being acknowledged as received:

- Purchase document number as issued by the department
- Item number
- Quantity and unit of measure
- Product part number
- Description of the goods shipped

The staff responsible for checking and taking custody of the goods should sign the receiving document either the STD.106 or the approved purchase document. If the STD.106 signatory is not the person who physically checked and took possession of the goods, then whoever does sign the STD.106 must take precautionary measures to assure that the goods were actually received and checked before signing.

If a department elects to accept partial deliveries, a photocopy of the approved purchase document may be used as a stock received report. When using the purchase document as a stock received report, the receiving staff checking the goods will write the:

- Date received
- Quantity received
- Note any defect in condition

This process is followed for each partial shipment received through completion. The last stock received report for an order must be stamped or designated as "Complete" when the order is completely filled.

Notes

The receiving package documentation initiates the payment process, as accounting staff uses this documentation to reconcile against the purchase document and supplier invoice. This documentation also provides the material necessary for the buyer to perform any post-award activities, including closing out the purchase or conducting follow up activities with the supplier regarding outstanding or incorrect deliveries.

Failure to provide all required documentation and follow all related policies and procedures ultimately delays supplier payments unnecessarily and could result in the department paying late payment penalties.

Inspecting is an act of examining goods that have been delivered to determine conformance to what was ordered via the purchase document. In some cases, the acquisition may require specialized skills or expertise in examining the goods to determine conformance.

Example: Completing an inspection or performance test, the department provides the supplier a notification letter confirming that the inspection/test has occurred, the equipment passed the inspection/test and the department accepts the product.

Departmental receiving and/or designated staff (dependent upon the goods received and whether or not staff with specialized expertise is necessary), should, upon acknowledging receipt of an order, conduct an inspection for the following minimum conditions:

- Verify that what was ordered conforms to purchase document documentation (Statement of Work, specifications, attachments, etc.), including the product description, model, brand and product numbers.
- Verify the quantity ordered against the quantity shipped or delivered.
- Inspect for damage or breakage.
- Check for operability/functionality.
- Confirm instructions regarding special handling or packaging were followed.
- Verify that the unit of measurement count is correct (e.g. if the unit of measurement on the purchase document is one dozen, count 12 in the unit package).
- Verify that delivery documentation (packing slip, certifications, etc.) is acceptable.
- Verify that packaging integrity is preserved (no leakages, damages, etc.).
- Verify that perishable items are in good condition and expiration dates have not been exceeded.

Inspections should be completed within a reasonable amount of time. If a department knows that the inspection will not be immediate, then the purchase document must provide when the inspection will occur and how it will be accomplished.

Departments determining that the supplier will inspect the goods on the state's behalf (this may occur in shipments to multiple field locations and where set-up and/or installation services are required), will describe in the documentation what activities will be performed. Documentation may include a standard installation checklist for the supplier to complete and provide to a state representative upon completion of the tasks. Departments are advised to document all inspection results and provide the results to the department procurement office for filing within the procurement file.

The document should, at a minimum, identify what action was performed, who was in attendance, both department and supplier personnel by name and title, when and where the inspection occurred, and the inspection results. Documentation shall be retained within the procurement file.

Notes

Acceptance Testing is an act of testing what is purchased, either all items delivered, or the first item delivered or by random sampling of some or all items delivered. Testing determines what is purchased is in substantial accord with the contract and suppliers and/or manufacturers published technical specification and performs at a satisfactory level.

Example: A department has purchased a printer. The solicitation document identified a 30-day acceptance-testing period, during which the printer would be required to run error-free from the first day of installation.

Acceptance is the legal act of documenting that the goods and/or services conform to the requirements of the purchase document terms and conditions.

Self Assessment

Fill in the blanks:

7. ..... is an act of taking possession of goods in order to stage them for inspection or place them into inventory.
8. Packing slips must be included in all shipments ..... by a department.
9. ..... is an act of examining goods that have been delivered to determine conformance to what was ordered via the purchase document.

4.4 Storage System

The retail world is extremely competitive. With new stores opening all the time, you can never rest on your laurels; you must constantly strive to differentiate yourself from the competition. That's why, you seek excellence in all areas of your business: quality customer service, effective marketing, and attractive displays. To give yourself another advantage that can help distinguish you from the rest of the market, you should also expect excellence when it comes to storage.

As global leaders in the storage industry with decades of experience serving our customers, Montel is the best in the business when it comes to configurable retail shelving and racking. Carefully designed to optimize space in your warehouse or stock room, our comprehensive product line includes modular, expandable and customizable options that give you the flexibility to rearrange your storage areas as needed, time and again.

Whether large-scale or compact, the intelligent design of our high-density mobile and stationary systems will halve the space occupied by your storage items, no matter what area of retail you're in. Clothing and apparel, shoes, hardware, eyewear, optical accessories: we reduce wasted space for all of them and much more.

Retail store systems are on the frontline of the drive to achieve operational excellence—the key to competitive advantage now, and in the future.

Mobile shelving and racking storage systems that help minimise storage floor space at the back of the shop leaving more space for retail display.

But in today's markets there are multiple challenges. Cost pressures are mounting. Intense competition complicates the task of securing customer loyalty and achieving profitable future growth. And compliance requirements, which differ from country to country, are evolving. These challenges require high performing store systems.

Retailers face multiple challenges when changing their store systems: meeting bespoke and fast changing business needs, connecting the store systems to other mission-critical head office systems, managing the complex logistics of changing large amounts of store-based hardware,

and successfully training what can often be thousands of distributed end users. This makes delivery certainty critically important. And maintaining business continuity is equally important because the data that flows between the store and head office underpins merchandising, supply chain, accounting and payment systems—the heart of the retail business.

Self Assessment

State whether the following statements are true or false:

10. The retail world is not extremely competitive.
11. Retail store systems are on the frontline of the drive to achieve operational excellence.
12. Mobile shelving and racking storage systems that help minimise storage floor space at the back of the shop leaving more space for retail display.

4.5 Preservation of Materials in the Storage

Preservation management is required for the implementation of policies that are based on established standards and practices (such as risk management, cost-benefit analysis, handling guidelines, and supply specifications). Effective planning should be done in conjunction with assessment surveys of institutional environment and security; collection priorities based on value, use, and risk; and item-level condition and housing needs to ensure responsible levels of accessibility and care that is appropriate to the needs of collections. A consideration of the budget, staff, supplies, space, and time resources of the repository is mandatory. Preservation planning facilitates reformatting, environmental control, collections maintenance, treatment, research, and training.

Material care requires the establishment, first, of responsible handling and storage policies for collections and second, responsible access to information. If you don't have it, you can't access it. Preservation of the physical and chemical content of the material is necessary before preservation of its intellectual content can be assured. Even digitization ensures access to only that information which has been extracted from original material to date. To illustrate but one example, duplication of the image of an old photograph in no way reveals whether the photograph is a vintage product of a single negative or a composite of separate pieces that may or may not be of the same period. This information can be determined by analysis of the old photograph (coatings, emulsion, paper, mount) using the chemical and physical measurements of materials science. Stored improperly, a mounted photograph may lose valuable visible information that might or might not be "recovered" through digitized image-enhancement techniques. A colour transparency of an old photograph may replicate enough visual content to meet some research needs, but in no way does any duplicate provide all the informational content preserved in the original photograph, such as the photographer's working methods and materials. Technical information inherent in the original photograph may be determined through materials science if this information has not been irretrievably lost because of deterioration resulting from poor storage and care.

4.5.1 Preservation Strategies and Tactics

Material care and materials science are essential elements in any comprehensive preservation program, incorporated within key functions of preservation administration, duplication, environmental control, collections maintenance, conservation treatment, research and education. Key strategies employ preventive care and phased conservation. Despite the depletion of economic resources exacerbating the depletion of natural and cultural resources, these strategies

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can maximize minimum resources in several ways. Cost-benefit analysis and risk management assessment support a strategy emphasizing damage control through preventive care, since fiscally responsible prevention of damage forestalls fiscally costly intervention to correct damage. For example, one tactic is to develop a triage method for care. In some cases, cost-benefit is greatest in the proper rehousing of large quantities of not-yet deteriorated materials (thereby postponing indefinitely the start deterioration), than in conserving a few extraordinarily damaged materials. Resource management favours a strategy of phased conservation that advocates step-by-step tactics or initiatives based on assessment of short, mid and long-term needs. Many initiatives (such as writing handling guidelines and supply specifications, or conducting assessment surveys) can be implemented quickly at low cost and have high impact. Such initiatives form the basis of preservation activities in the strategic plans of federal cultural agencies.

Lab Exercise Go to website http://www.apgenco.gov.in/administrator/uploadedfiles/storespartii.pdf and collect information on deterioration.

Terminology used in retail storage comprises:

- ***Labeling:*** Printed material that is identified on the engineering list of materials or is identified as a specific product.
- ***Sensitive Material:*** Materials that are susceptible to damage or contamination due to temperature extremes, improper handling (movement and storage), or incorrect packing. The materials include those that are perishable, clean, sterile, fragile, temperature sensitive, or hazardous.
- ***Perishable Material:*** Materials that spoil or deteriorate unless properly handled and stored, i.e., have a limited shelf life.
- ***Clean Material:*** Any material or component that has been cleaned in a clean environment and is intended for use in a clean environment.
- ***Sterile Material:*** Any material that has been subjected to an accepted method of sterilization, provided that its packaging is intact.
- ***Fragile Material:*** Any material that is easily subject to damage due to rough handling or overstacking.
- ***Temperature-Sensitive Material:*** Any material whose usability may be affected by temperature extremes.

All sensitive material is to be properly labeled with a label or tag. Any material that is sensitive or thought to be sensitive and does not have a label or tag is to be reported to the Inventory Control Supervisor immediately so that corrective action can be taken.

The environmental conditions of each storage facility are to be established and posted at each facility. It is the responsibility of all Inventory Control personnel to be familiar with and aware of the environmental requirements of each storage facility and to report any deviation from requirements to the Inventory Control Supervisor.

The environmental requirements document to be posted at each facility will contain information on:

1. the care and maintenance of any equipment used to sustain proper temperature, pressure, or other environmental conditions;
2. the manner and means to be used to store material in the area;

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3. inspection procedures to be performed on a periodic or as-required basis concerning the facility and the material contained therein;

4. restrictions and controls relative to access to the area, special clothing or any other procedures germane to the use and preservation of the storage area and its contents.

Task Make a record of different facts listed in environmental requirements document.

In order to comply with established standards and practices for the care of collections outlined in all the functions above, all staff and users need systematic and on-going short- and long-term theoretical and practical training.

Self Assessment

Fill in the blanks:

13. ..... management is required for the implementation of policies that are based on established standards and practices.

14. Effective planning should be done in conjunction with ..... surveys of institutional environment and security.

15. Any material that is sensitive or thought to be sensitive and does not have a label or tag is to be reported to the ..... Control Supervisor immediately so that corrective action can be taken.

Case Study

Store Opening Solutions

Simplifies Manufacturer's Project with End-to-End Solution:

- Receive product from multiple sources
- Sort and palletize product for new recipients
- Ship pallets to nearly 300 individual retail sites

Customer Description

Client is a leading manufacturer of custom retail store fixtures whose mission is to provide quality products through innovative design and efficient manufacturing.

Customer Issue

The challenge facing this client included the need to receive product from multiple sources, both imported and domestic, and to deliver to almost 300 stores over an eight-week period in addition to having the units installed at the store site upon delivery. While the customer did have the distribution facilities and capabilities, the scope of the project along with the size of the items, they thought outsourcing may provide better execution and allow them to focus on their core competencies.

Solutions Overview

Store Opening Solutions LLC (SOS) offered the client flexible warehouse space with the ability to receive product from multiple vendors and locations. SOS' experienced warehouse

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personnel provided break bulk services, cross-dock services, kitting services, and consolidation of fixtures from both domestic and international shipment locations.

SOS' experienced transportation management team provided inbound and outbound freight to 10 regional storage warehouses for milk run delivery to multiple store sites. The team arranged for all temporary storage facilities, transportation, forklift, and manpower requirements.

The installation teams picked up the fixtures at the regional storage facilities delivered and installed the fixtures at the site locations. Teams of two installers completed the installation, and disposed of trash and recycling materials before heading to the next store site.

Improvements Realized

SOS allowed the customer to successfully execute their project with reliable experience at every step, utilizing one vendor with the cooperation of our strategic partners.

Using a third party for consolidation and logistics support, transportation management, and installation with "activity-based" services led to quicker results and greater savings. Our team combined efficiency, planning, and organization to help the customer achieve their goals.

Excels in Assisting Customer's Acquisition Project

- 2200 recently acquired stores to remodel
- Consolidated large fixture program
- Provided web-based inventory management
- Loaded pallets in sequence for quick installation on site

Customer Description

Customer operates 6,923 retail stores in 41 states and the District of Columbia. Existing stores range in size from approximately 8,000 to 25,000 square feet, although most new stores range in size from approximately 10,000 to 13,000 square feet.

Customer Issue

Our customer faced the challenge of integrating 2200 recently acquired stores into their corporate family within 18 months. The customer questioned whether they should increase their fixed cost by adding a temporary warehouse and the personnel to complete the 18-month long project, or if they should outsource the project. As the customer stated, "Opening and closing warehouses cost money, affects people, and drains management focus."

Solutions Overview

SOS was able to offer the customer flexible warehouse space and the ability to consolidate large fixture programs along with a web-based inventory management system that would enable SOS and the customer to manage the reset program. To simplify the process, store fixtures were loaded on trucks so they could in turn be unloaded in the sequence necessary for quick installation.

Improvements Realized

SOS allowed the customer to remodel 40–50 stores per week with no late deliveries. Before using SOS, it may have taken the company two to three weeks to receive a

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replacement fixture in the store. Now the customer receives new fixtures within days of placing the order online.

Using a third party for technology, consolidation and logistics support has allowed the customer to convert many fixed expenses into variable expenses. This has not only reduced their risk exposure, but also generated bottom-line savings.

As a result, the customer decided to close down their remaining fixture warehouse and allow SOS to manage all of their consolidations, fixture replenishment, and point-of-purchase display programs.

Reduces Time to Open Store

Customer Description

- Receive all fixtures for new store openings
- Maintain fixture inventory to cover 6–12 months of store openings
- Complete any freight claims for customer
- Consolidate shipments into TLs

The specialty retail operations of the customer consists of retail stores selling a wide variety of furniture, wicker, decorative home furnishings, dining and kitchen goods, epicurean products, bath and bedding accessories, candles and other specialty items for the home.

Customer Issue

This retail chain had tried all options over the years, from warehousing and transporting fixtures in-house to using temporary local warehouses. Under the latter plan, vendors drop-shipped the equipment directly to the warehouses starting about four to five weeks before occupancy. The system worked will in some locations, but the overall accuracy was poor.

The frantic phone calls from the customer's field staff on occupancy days regarding missing and damaged fixtures were a problem. Corporate personnel spent a large amount of time expediting, tracing, and reshipping orders.

Solutions Overview

The customer now issues blanket purchase orders to its fixture vendors that cover six months to a year's worth of its fixture needs. SOS allocates the needed amount of space in its warehouse, along with dedicated staff. SOS takes full responsibility for the inventory. If something is delivered damaged, SOS completes the freight claims on behalf of the customer. When it comes time to replenish inventory, SOS coordinates with the customer's vendors to consolidate shipments, resulting in full truckloads.

Improvements Realized

By utilizing the services offered by SOS, the savings resulted in about $5,000 in hard costs per store opening, in addition to savings of substantial soft costs.

Using SOS has reduced the customer's store-opening costs, as well as minimized warehouse and transportation overhead and additional costs, including emergency overnight air shipments associated with late deliveries. The fixtures arrive on time with every piece accounted for. Overall, the estimated annual savings to the company were close to $1 million, which goes straight to the bottom line.

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Additionally, the time spent making phone calls, expediting, tracing, and reshipping have all been greatly reduced.

Questions:

1. Analyze the case and interpret it.
2. Write down the case fact.
3. What do you conclude from it?

Source: http://www.store-solutions.com/case.html

4.6 Summary

- In a retail environment, opening and closing times present unique security risks.
- At these times, employees are particularly vulnerable to robbery.
- Opening a retail store really depends on where you live.
- Each state has its own commerce laws and policies.
- To open a retail store, you need a legal organization for your business such as sole proprietor, partner or corporation.
- The name of your business and tax identification number are required.
- You also need to decide on what you will be selling, location, employees, wholesaler and a business plan.
- At least two employees must be present to open the facility.
- One employee will enter the facility, while the other waits outside in a locked vehicle with access to a mobile phone.
- The outside employee will maintain a clear view of the facility and wait for the predetermined all clear signal from his/her associate.
- At closing time, one employee will lock the customer entry door(s) from inside.
- An employee will be stationed at the front door to let any customers remaining in the facility out one at a time.
- Employees should take special notice of any customers that seem to be loitering or intentionally trying to be last in line.
- Anyone who seems to be intentionally loitering should be reported to the manager.
- No customers will be admitted after the doors have been locked.
- Any employees attempting to gain entrance must show proper identification.
- No vendors or service technicians will be allowed access unless they have been given prior authorization.

4.7 Keywords

Acceptance Testing: It is an act of testing what is purchased, either all items delivered, or the first item delivered or by random sampling of some or all items delivered.

Clean Material: Any material or component that has been cleaned in a clean environment and is intended for use in a clean environment.

Notes

Fragile Material: Any material that is easily subject to damage due to rough handling or overstacking.

Inspecting: Inspecting is an act of examining goods that have been delivered to determine conformance to what was ordered via the purchase document.

Labeling: Printed material that is identified on the engineering list of materials or is identified as a specific product.

Material cognizance: The term material cognizance refers to the inventory manager and technical advisor of each category of material in the supply system.

Material identification: Material identification is the process of identifying the requisite retail store material. Processing time starts when requisitions are ordered.

Perishable Material: Materials that spoil or deteriorate unless properly handled and stored, i.e., have a limited shelf life.

Receiving: Receiving is an act of taking possession of goods in order to stage them for inspection or place them into inventory.

Sensitive Material: Materials that are susceptible to damage or contamination due to temperature extremes, improper handling (movement and storage), or incorrect packing. The materials include those that are perishable, clean, sterile, fragile, temperature sensitive, or hazardous.

Sterile Material: Any material that has been subjected to an accepted method of sterilization, provided that its packaging is intact.

Temperature-Sensitive Material: Any material whose usability may be affected by temperature extremes.

4.8 Review Questions

1. What are the opening pre-requisites of retail store?
2. What are the closing pre-requisites of retail store?
3. What is the significance of labeling of a printed material?
4. What are sensitive materials?
5. What are sterile materials?
6. What are fragile materials?
7. What are temperature sensitive materials?
8. How will you relate storage receiving and inspection?
9. What is meant by preservation of material?
10. Explain preservation of materials in the storage system.

Answers: Self Assessment

1.	Security	2.	where you live
3.	manager	4.	True
5.	True	6.	False
7.	Receiving	8.	received

Notes

9. Inspecting
10. False
11. True
12. True
13. Preservation
14. Assessment
15. Inventory

4.9 Further Readings

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Unit 5: Retail Arithmetic

Notes

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Objectives

After studying this unit, you should be able to:

- Define retail arithmetic
- Describe health of your business
- Discuss quantitative terms related with a retail store and its calculation
- Explain marketing-retail

Introduction

The retail industry is at the centre of a dramatic shift in the way consumers shop and interact with retailers. Retail is, indeed, a numbers game. Here we have provided you with the basics of retail math. Still, they are only the basics. Along the way, you will encounter nuances of retail numbers that will only add to your experience in this competitive, thriving, and ultimately rewarding field. Knowledge is the key to success. Knowing the numbers before you start your retailing adventure is vital to your success. Certainly there is a lot to learn, but understanding the basics will help you fine tune the rest and, in the meantime, will keep you alive and well, the latest addition to the thriving retail industry.

Retailers typically keep a two-column ledger in order to fully understand what is going on with their business. In the left column, they keep a running record of the cost of the merchandise, the landed price including the cost of goods and shipping costs. In the right column, they keep a running record of the retail value of the merchandise, the sum of the retail price tickets on all the items in the store. This method lets you keep track of the markdowns in the right column so you can see at a glance the profitability of an item, department, and store. Also, this approach shows

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you the profit or loss in the month it occurs, and resets the margin for the new month, giving you a true month-to-month comparison.

In this unit, we will discuss basic overview of retail arithmetic. Further, we will focus quantitative terms related with a retail store and its calculation.

5.1 Health of Your Business

To determine how well or (perish the thought) how badly their business is doing, retailers routinely compare each month with the same month a year prior. This is because, given the large seasonal swings almost all retailers experience, there is little meaning in comparing this month's sales with last month's. So, if this February you did $110,000 in sales and last February you did $100,000, your business would be 10% ahead of last year. And, if this continues for a while, you can be happy with your trend. Of course, if the numbers were reversed and you did $100,000 this year and $110,000 last, you would be 9% behind, and you would have to take prompt remedial action.

Did u know? Under the retail methodology, the selling price of an item is always 100%.

Therefore, both cost (the amount you pay for an item) and markup (the amount by which you increase the price to cover your expenses and profit) must equal 100%.

In looking at these figures, you must exclude new stores or departments you opened. To determine how healthy your business is, the comparison between years must be apples to apples, that is, same store performance.

Caution Make sure that any accountant you involve with your business fully understands retail accounting. If not, you could truly be at a loss.

Self Assessment

Fill in the blanks:

1. Retailers typically keep a .....-column ledger in order to fully understand what is going on with their business.
2. In the ..... column, they keep a running record of the cost of the merchandise, the landed price including the cost of goods and shipping costs.
3. In the ..... column, they keep a running record of the retail value of the merchandise, the sum of the retail price tickets on all the items in the store.
4. To determine how well or (perish the thought) how badly their business is doing, retailers routinely compare each month with the same month a year .....
5. Under the retail methodology, the selling price of an item is always .....%.

5.2 Quantitative Terms Related with a Retail Store and its Calculation

Math is used at every level of retailing. From the basic functions of counting money and making change, to computing the total amount of a sales transaction involving calculating percentages to determine discounts, sales tax and shipping charges. More complex retail tasks require more

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advanced retail math skills. Use various retail math calculators and formulas to calculate gross profit margins, cash flow, start-up costs, break even analysis, retail profitability, and dollar planning and control.

To discuss the retail concept of margin it is important to have a few definitions under our belts first. For starters:

- ***Cost*:** Cost of Goods (COG) is what you pay the vendor for products.
- ***Retail Selling Price:*** Retail Selling Price of Merchandise is what your customers pay the store for these goods.
- ***Initial Margin:*** Initial Margin is the difference between retail and cost (Retail – Cost = IM$), expressed as a percentage of retail.

So, if you buy a shirt for $3 and sell it for $7, your initial margin is $4 or 59.1%. If you (like me) didn't pay attention in ninth grade algebra, let me give you a quick update. In retailing there are three ingredients needed to figure out what your margin is and what the margin should be. If you know two out of three, calculate the third. Then, you can decide whether or not what you have to pay fits into your business plan.

Let's run through a few examples.

- When cost and retail are known (and you want to find out what your margin percentage will be):

  Retail – Cost = Initial Margin % retail

  Example: If you buy a lamp for $6 and it retails for $10,

  Initial margin % is 10 – 6 = 4 = 40%

- When cost and margin percentage are known (and you want to figure out what the retail should be):

  Retail = cost (100% – margin %)

- When retail and margin percentage are known and you want to find out what you can afford to pay the vendor, the calculation is Cost = Retail (100% – margin%)

5.2.1 Inventory Turn

Turnover of inventory, or turn, is the calculation of how many times you sell and replenish the merchandise in your store over the course of a year.

To figure out your turn, divide your annual sales by your average inventory (at retail). For instance, if your sales are $400,000 for the year and your average retail is $100,000, your turn is 4. The more times you can turn over your inventory, the better it is because:

- You will have less old merchandise.
- You will have more opportunities to buy, which should lead to better buys.
- The inventory will be more up-to-date.
- Less money will be tied up in inventory.
- You'll make more profit on your invested capital. (If you need $100,000 of inventory—tied up capital—to feed $400,000 worth of sales and profits, you're obviously better off than if you need double that inventory for the same results.)

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Stock to sales ratio is the monthly view of turnover. It is the amount of merchandise in the store at the beginning of a given month divided by the amount of sales of merchandise for the month. It provides you with a quick view on how well you manage the inventory. For instance, if you have inventory of $120,000 and $30,000 in sales for the month, then your stock to sales ratio is four to one. This means that it will take four months of selling at your current rate to sell through the average monthly inventory.

Knowing that there are twelve months in a year, this means you are turning your goods at the rate of three times a year (twelve months divided by a four stock-to-sales ratio). However, if your (realistic) goal is to achieve a stock-to-sales ratio of three to one, that is a turn of four—you are overstocking and need to find ways to operate on less inventory or to sell more!

Task Gather more information on various quantitative terms related with a retail store. And make a chart on it.

Your ultimate goal should always be to develop the highest level of sales from the smallest possible inventory. But be careful what you wish for. If you try to push your turns too high, you may run out of merchandise that your customers want, and they may go elsewhere.

The number of turns for which you should aim varies by type of retailer. Thus, before you set your target, you should find out what is the industry norm. Actually, this is another reason to belong to the trade association most related to your type of retail store. Such organizations can give you the average guidelines for turn and stock to sales ratios for different seasons that should help you keep the right amount of inventory on hand, particularly through your first few years in business.

Caution You should review your turnover ratio every week.

The higher the turnover, the stronger the retail business will be. With a high turnover, you have less money invested in the inventory at any given time and a lower risk of carrying products your customers does not want to buy.

You get higher sales from the same amount of space, have fresher goods in the store, and can always feature new items to tempt your customers. There's nothing more disappointing to a repeat customer than seeing nothing but the same old stuff. While turn rates are innately different between different categories of retail; within each category there are two basic, and quite different, strategies that you must decide upon when setting your turnover objectives:

1. High margin, high price, and low turnover
2. Low margin, low price, and high turnover

A low turnover item must give you a high margin in order to pay the rent for sitting on your shelf for a long time. In contrast, a high turnover item obviously has to pay less rent, and therefore can make a lower margin.

Strategically, you can mix these two turnover concepts as long as one dominates the other so you are giving a clear message to the customers. For instance, in your toy department, you may price Barbie at cost to create a high turnover, but price her accessories higher to create more margins, expecting that customers who buy Barbie because of the price will pick up the other items because no little girl can exist without at least three new outfits for her doll!

Obviously, you want to turn all your merchandise as quickly as possible. The trick is to recognize that you may have to stock low turnover items as a service to your customers to induce them to come to your store and buy the more popular items.

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Example: A well-known cosmetic company's president was delving through his firm's lipstick sales and discovered that, of the ninety six shades they marketed, four did 81% of the business, ten did 94% of the business, and fifteen did 98% of the business. His first thought was to discontinue all but the fast-selling four. Fortunately for him, wiser heads prevailed and the company kept fifteen shades and discontinued the rest. "We'll save inventory by eliminating eighty-one shades, we'll increase our profits even if we lose the whole two percent of sales that are in the discontinued shades," the president explained. "In any case, most of the women buying those shades will probably switch to the ones we're keeping."

The result? Sales fell to about half. A large majority of women were buying the same fifteen shades, but they wanted to feel they had a huge choice. They were offended to think that the company was, ineffective in deciding the shade for them. Providing a good selection is often part of pleasing your customers. But it has a cost.

Slow Turn causes:

- Slow-moving merchandise to clog your shelves and make it harder for customers to find the goods they want
- Excessive accumulation of old styles, odd sizes, and extreme colours
- Increased expenses
- Deeper markdowns and the need to run them more often

The challenge is to balance the inventory level against the service level you want to provide your customers. As I said, it's a balancing act. Too high a turn will produce too many out-of-stock situations and hence lost sales and disgruntled, often non-returning, customers. Too low a turnover could put you out of business.

Determining How Much Margin to Go After Realising the retailer's creed: Always strive to squeeze as much margin as possible. The more margins you can extract from one item, the more money you have to cut prices (and margins) on the products and deals that drive traffic through your store. However, when trying to raise margins, you must bear in mind what the consumer is willing to pay in your store environment. If you are a discount store, you cannot expect to make the same margin the department store down the street makes on the same item. In your store, your customers are only in the mood for bargains.

In general, margin decisions should be based on:

- ***Competitors' retail.*** If an item is carried throughout your trading area and it's an item you cannot do without, you must decide if you are going to be parity priced with everyone else or have the lowest price in town. Having the lowest price will hurt your overall margin, but it may increase turn and build customer traffic.
- ***Last year's sales on this item or a similar product.*** Once you have a history of an item, you can determine how price-sensitive it is and if you have room to get more margin.
- ***Planned turnover of an item.*** If you expect sales to be limited and you're carrying the item only as a convenience for the customers, take the extra margin. I always thought the president of the cosmetics company I referred to earlier should have up-priced all the colours that hardly sold and called them "premium shades"! Not only would he have improved his margins, but I bet he would have sold more of those shades. Cosmetics buyers are always looking for something "exclusive."
- ***Wholesale costs.*** Be sure to shop around among wholesalers (if you are not dealing directly with the manufacturer) to see if you can reduce the price you are paying. Even a few pennies saved can accumulate into good margin gains at the end of the year. Most retailers

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make a pre-tax profit of between 2% and 8% of sales; only in rare cases do their pretax profits exceed 10%.

Let's assume that your pre-tax profit is 5% of sales. Now, if you can cut the cost of your purchases so your margin increases by 2%, for example, by paying $6.00 for an item you sell for $10.00 instead of paying $6.25, that extra $0.25 drops to your bottom line. That means that your pre-tax profit increases from $0.50 to $0.75—a whopping 50% increase in your profits!

If you can make a 2.5% improvement on all the cost of all merchandise you sell, and your annual sales are $1,000,000, then your pre-tax profit would rise from $50,000 to $75,000. Not bad! Certainly worth pushing your suppliers to give you some price breaks. Because there are no additional expenses, that extra $0.25 drops to your bottom line and you make $0.50 for every $10.00 of merchandise you sell.

- ***Manufacturers suggested retail.*** Although this is only a guideline, it gives you a sense of the worth of products. If you are a discounter, this also allows you to prove to your customers how much you have cut your price.
- ***Handling and selling costs.*** Products can vary dramatically in what they cost to sell. Some products (like glassware) break easily so customers or sales people are likely to damage a certain percentage of the stock. Certain goods have a tendency to disappear because of shoplifting (electronics). Others are extremely heavy or awkward to move from the warehouse to the selling floor, so the freight and handling costs may be high. Some may be shipped from across the street while others may be coming from across the country, so transportation costs need to be considered. Some goods may come in pre-ticketed while others require a lot of handling and ticketing in the store, adding to your cost. Some goods tend to have a high return rate. All these costs need to be factored into the product's retail price. A brittle, faddy, easily stolen article with a 60% margin may actually be less profitable than a solid "evergreen" product with a 40% margin.
- ***Nature of the goods.*** If you are dealing in fad- or fashion-oriented merchandise (which includes everything from fashions themselves to cosmetics to toys to novelties that come and go—remember the Pet Rock?), know what an item's likely shelf life is. How will the manufacturer help with markdowns? These, too, are factors you need to consider when thinking through how to price merchandise and how much initial margin to achieve.
- ***Correlation among departments***. For instance, infant clothing should not be selling higher than boys and girls clothing.
- ***Demand and supply of goods.*** If you have the exclusive distribution of a hot item, you can usually squeeze out additional margin. If there is a high demand but short supply, and you find there is little price resistance for an item, you can get additional margin there as well.

5.2.2 How to Increase Your Margin?

There are several different tactics you can use to help increase your margin while at the same time not changing the customer's experience in the store:

Import Merchandise

It sounds complicated at first glance. However, importing merchandise can take on several different phases as your store grows. You may want to start off small, dealing with an importer using his label on the products.

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Once you reach a certain volume, however, you may be able to bring in your own private label products at considerably lower cost. In addition to saving money, here are some reasons to look into importing:

1. ***No middle man.*** If you are dealing with an importer directly or eventually importing your own products, you have eliminated the wholesaler or distributor from whom you were buying the goods. Thus, you have added their margin to your own.
2. ***Control.*** Once you establish a personal relationship with the overseas manufacturer, you may better control the quality, quantity, and timeliness of the merchandise you are buying.
3. ***Exclusivity.*** By importing a product featuring your name (and, possibly, your specifications), you can display an item that no competitor carries. That means you can sell it for whatever the market will bear without having to worry too much about what your competitors are doing.
4. ***Competitive Retail.*** You can bring in a high quality, private label item to compete effectively with a higher-priced, branded product carried by your competitors. In this way, you may be able to enhance your low price reputation while still maintaining a comfortable margin.

Cash Discounts

Vendors are generally forced to extend credit. However, because cash is king to them, they often encourage you to pay before the due date by offering you a cash discount for early payment or a payment in advance of a specific date. Among the more common cash discounts are:

1. 3/10 EOM. A discount of 3% if the invoice is paid within ten days from the end of the month.
2. 2/10 Net 30. A discount of 2% if the invoice is paid within ten days from the date it is issued. Ten is the number of days the rate is available.

   Thirty is the number of days within which the invoice must be paid.
3. 3/10 ROG: A discount of 3% if the invoice is paid within ten days of receipt of goods.

Delivery Terms

Delivery terms indicate when and where the title of the merchandise passes from the seller to the buyer. That is the time and place at which your risk of ownership begins. From that time and place, you own the goods and you pay for insurance and transportation. Therefore, you can save money by delaying the point at which you actually take possession of the merchandise.

Two common delivery terms are:

1. ***FOB Factory.*** Your store owns the goods as soon as the carrier picks the shipment up at the factory. That means you pay the freight from there.
2. ***FOB Warehouse or Store.*** In this case, because the seller owns the goods until they arrive at your location, the seller pays freight, insurance, etc.

Dating

Dating extends the time by which you have to pay for merchandise. As the saying goes, "Time is money." Dating is valuable for two reasons. The first reason is the interest you save on the money that you keep under your control for longer. This value depends on the prevailing rate

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at which you can borrow money. For instance, if interest rates are 12% per annum (as they were some years ago), then adding an additional month before you have to pay is worth 1% of the money you owe. If interest rates are 6%, that translates into a half percent gain each month. Always ask for additional dating.

The second reason, and often the more determinant one, is that you are likely to find that, like most retailers, you are chronically short of cash. This is not necessarily unhealthy (although it is uncomfortable) because there is a good reason for it.

If your business is growing (as you hope and intend that it will), you will need more inventory. Even if your turn is a very impressive six times a year, in the short run you are still putting out more cash than you are collecting—six times a year turn means you have to buy two months of extra inventory to service your growth. Typically, you have to pay for the extra inventory in one month. Of course, you'll get your money back in time, plus the profit on the extra volume, but you'll be strapped until then. Dating helps overcome this problem. Fortunately, it also helps your supplier because you can buy, display, and sell more of his merchandise.

Dating is always helpful, but there are occasion when you have a particularly strong argument to ask for it. Two such occasions are:

1. ***Opening a new store.*** The goods will be sitting in a store with no chance of selling or turning until the store opens, usually for thirty days.
2. ***Shipping to a warehouse instead of a store.*** The store loses the turnaround time it takes to get goods out of the warehouse. Goods could sit in a warehouse for thirty days or more before moving to the store.

Notes Markdowns: As the name implies, to mark something down means to reduce the original retail price. Markdowns are taken for three rather different sets of reasons:

1. To speed the sale of slow moving products; to clear your inventory of odd sizes, colours, and styles, and to encourage the sale of soiled or damaged goods
2. To maintain price competition with other stores
3. To create the excitement of a special sale (the "happiest" of the three reasons because, while you'll still lower your margins, you'll boost your sales)

Other Retail Practices used to Change Prices

Since the price you charge your customers will always affect your bottom line, you can never overestimate or underestimate the importance of price. Here are some other retail practices sometimes used to change prices:

- ***Additional Mark-Up.*** As the name implies, this practice changes the price upward. It is mostly used in one of the following occasions:
  - A special sale is run at a marked down price, then the price is marked up to its previous level after the sale.
  - A vendor increases the price on the next shipment of a certain item. Because the competition will be forced to increase their prices, those items already in your store are marked up.
- ***Mark Up Cancellation.*** When you introduce a new item into your store, you may initially mark it up in order to establish a high price. Then, once that value is established, you may cancel the additional mark up and reduce the merchandise for a special sale. To some

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extent, you may be able to use the extra margin you earn when you first bring the item in (and it's still new and exciting enough to attract customers in spite of its higher price) to help finance the lower margin sale you run subsequently.

Open to Buy(OTB)

The purpose of an Open to Buy, or OTB, system is to tell you exactly how much merchandise you must purchase to satisfy the amount of inventory you have budgeted for a specified period of time, usually one month.

The simplified way of looking at OTB is:

- Planned end-of-month (EOM) inventory for March $100,000
- Plus planned sales for March +$40,000
- Plus planned Markdowns for March +$ 2,000
- Minus merchandise on order and due to arrive in March –$15,000
- Minus BOM (beginning of month) inventory for March –$90,000
- Open to Buy $37,000

Before you ever commit to buying product, you must have your OTB plan in front of you. That way, you'll know when you need (and can afford) to buy new merchandise. You may not have the money to bring it in during March, but with your plan in front of you, you'll be able to see that there is room during the first week of April. Without your OTB plan, you may inadvertently overextend yourself. You may be the best buyer in the world, but if you do not have the money to pay for goods, you won't last long in retailing.

The only way to stay on top of this crucial facet of the business is to have a plan. The first step in developing this plan is to project your sales by month for the first year. Of course, this is a moving target, so you need to re-project them, or make sure your prior projection is still on target, at the start of every month.

The second step in your planning is to establish the turn of your inventory so you know how much inventory you will need at the start of each month to feed your projected sales. Once you know your sales and turn, you can quickly calculate your OTB to see how much to purchase each month. If, during the year, you are trending up or down in sales, OTB can easily be adjusted to meet those specific needs.

5.2.3 Break Even Point

The point in business where the sales equal the expenses. There is no profit and no loss.

Formula:

Break-Even Point ($) = Fixed Costs ÷ Gross Margin Percentage

It is also known as Breakeven Analysis.

Example: A retail store buys widgets for $15 each, marks them up and sells them for $30. Our monthly expenses (fixed costs) are $10,000. This means that breakeven point would be $20,000 or 667 units.

$10,000 ÷ (15/30) = $20,000

$20,000 ÷ $30 = 667

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5.2.4 Retail Method of Inventory, or Stopping Shrinkage

Shortages, also called shrinkage of inventory or just shrinkage, can cause a store to go out of business. Fast. That is why it is important to have procedures in place to keep track of everything happening in the store, from receipt of goods to final sale. There are two definitions of inventory:

1. ***Physical inventory.*** This is the counting of the stock that is actually on hand.
2. ***Book inventory.*** This is the record of what should be on hand. To derive the book inventory, begin with the starting inventory (either from store opening or the results of last year's physical inventory). Add all purchases, all returns that are in saleable condition, and any make goods the vendor may have provided for substandard merchandise.

   Subtract all sales and the amount of any markdowns that were below the price you paid for the goods.

   Shrinkage, or overage, is the difference between the physical inventory and the book inventory. The only cause for an overage is a booking error that should be avoided by double-checking everything. Some shrinkage is inevitable, and you need to plan for it. It represents the loss of merchandise for reasons that cannot be precisely specified. Those reasons include:

   - Vendor mistakes or fraud. Sometime, containers don't include the full count of goods.
   - Employee theft. This includes outright theft for profit (e.g., letting a few cases "fall off the back of a truck"), pilfering merchandise for personal use (taking home a box of detergent), and using store merchandise for legitimate reasons but without paying for it (a store clerk who needs a pencil opens a pack of a dozen and tosses the rest).
   - External theft. The most frequent method of external theft is shoplifting. More rarely, theft from your warehouses may occur.
   - Clerical mistakes and bookkeeping errors.
   - Unrecorded markdowns and allowances. These result in the quantity of product sold for the dollar volume recorded actually being greater than the recorded amount. For example, if you mark down a $10.00 item to $5.00 but fail to note the markdown on your books, selling $100.00 worth of that item will sell twenty items but only show ten as having sold. The missing ten items will show up as inventory shrinkage.
   - Unrecorded breakage.

How to Minimize Shrinkage?

Some shrinkage may be unavoidable, but a majority of the loss is preventable. Whether the issue is sloppy record-keeping or neighbourhood hooligans taking a "five-finger discount," take the following steps to minimize shortages:

- Record merchandise as soon as it arrives.
- Properly mark, price, and identify merchandise before moving it to the selling floor.
- Record all price changes.
- Record each transaction.
- Change records before transferring goods or returning them to the vendor.
- Take precaution against theft, as discussed in the following sections.

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Shrinkage from all causes has become a bigger problem than ever, particularly for first-time retail business owners for whom paperwork can easily become an overwhelming chore. In fact, the problem has become so prevalent that a 2% loss in shrinkage is a standard of the industry today.

A positive change in the cost of goods has a huge impact on your bottom line. Unfortunately, shrinkage has exactly the same effect—in reverse! In addition to keeping careful records, there are several things you can do to curb shrinkage.

Employee Theft

Your employees should be the last people to steal from you. After all, you're the one signing their checks! Unfortunately, the opposite is true: most employees steal from their employers. The incidence of employee theft is high in retailing. Employees have greater access to a wide range of consumer goods that they either desire for themselves or know they can resell on the black market.

Moreover, employees often view what they take as trivial and don't consider it stealing. The office employee's equivalent is taking home some ballpoint pens and pads of paper. However, trivial or not, these thefts add up, and their financial impact goes way beyond the items stolen because it reduces your store's productivity, lowers turnover, inhibits hiring, and makes your store less viable.

In addition to casual pilfering, you may well face planned thievery, the willful theft of merchandise, supplies, or cash. Conspiracy with shoplifters or delivery persons is also common.

Shoplifting

Shoplifting is a major problem, especially of smaller, easily hidden items in general merchandise retailers, and of expensive items in larger stores. While most shoplifters simply try to slip some easily hidden items into their pockets or bags, some shoplifters are more sophisticated.

To give you some idea of how tricky they can be, one of their favourite tricks works like this: The criminal legally purchases an expensive article of clothing or an electronic device, takes it out of the store, removes the tags, leaves the item outside, and returns to the store with the tags and the receipt. Back inside, the thief picks out an identical item, takes it to the dressing room or some quiet corner of the store, and removes the tags. Next, he or she takes the item, without the tags, to the return desk, hands it and the receipt and tags from the legitimately purchased item to the harried clerk, and receives a refund. Unless a store security person actually catches the thief removing the tags, it's hard to prove that the second item is not the first one. Even if each item is numbered sequentially so the serial number on the item does not match the receipt (something the clerk at the return desk is unlikely to notice) it is difficult to use that as proof of a scam when the thief can claim that the serial number was incorrectly recorded on the item. Some thieves even have the gall to go to another store in the same chain and return the first item, claiming they lost the tags. Others sell the items to a fence.

Strengthening Store Security

A secure store is a store that is experiencing less shrinkage than its competitors. Security may be costly, but so is shrinkage. Often the mere appearance of security, to both your customers and your employees, is enough to do the trick. Here are some timely tips for strengthening your store's security:

1. Equip the store with a security alarm system hooked up to a central service company. Give each employee his or her own code so you can monitor who comes and goes.

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2. Use locked trash dumpsters to decrease the risk of merchandise being thrown into the dumpster and retrieved later.
3. Do not permit personnel to park near loading docks or exit doors. A longer walk to stash or transport items can be a real deterrent to employee theft.
4. Strictly enforce inventory control and tracking procedures.
5. Follow up on all references when hiring any new employee.
6. Implement an anonymous tip program that motivates employees to report theft, drug abuse, and other business abuses by both coworkers and outsiders.
7. Keep a close tab on customers who spend a lot of time in your store. The closer you watch, the less likely a shoplifter is to target your store.
8. Place observation cameras at strategic locations. As long as the red lights blink, they can be fake cameras. One fast-food chain I know has three dummy cameras that appear to be hidden but are easily observed by employees when they are peering down at the cash register. They are inexpensive because they don't work! However, the store also has one real camera that is very well hidden. Employees who decide to raid the cash register naturally turn away from the three cameras they think are observing them, shielding their misdeeds with their bodies.

What they don't realize is that they have turned directly to face the working, well-hidden camera. They are surprised when, a week or two later, they are laid off without explanation. The company never actually accuses them of stealing; if it did, it would have to reveal the presence of the hidden camera, and then the game would be over.

Self Assessment

State whether the following statements are true or false:

6. Cost of Goods (COG) is what you pay the vendor for products.
7. Retail Selling Price of Merchandise is what your customers pay the store for these goods.
8. Initial Margin is the difference between retail and cost expressed as a percentage of retail.
9. Vendors are generally forced to reduce credit.
10. Delivery terms indicate when and where the title of the merchandise passes from the seller to the buyer.

Caselet

Retail Location Analysis

There has been a growing interest among the academia and the private sector for the use of GIS techniques in the analysis and planning of retail store network. Over the past few decades the methodologies used for research of sighting of retail outlets have become more sophisticated as a result of applicable modeling procedures being developed with GIS. This study conducts a retail location analysis of the relationship between the fast-food store performance of McDonald's and Burger King and the various spatial and socio-economic factors of their respective catchment areas. Analytical procedures in GIS and statistical techniques have been applied to carry out the analysis in this study. Study areas have been partitioned into a set of Thiessen polygons and into various spatial

Contd....

Notes

configurations using variable buffer polygons to emulate various spatial configurations of catchment areas (i.e., trade areas) associated with each fast food store. The socio-economic profiles in the partitioned polygons have been analyzed with a series of regression models. The result of the study has brought out a better understanding of how location factors influence the performance of the stores as well as how the socio-economic attributes of the catchment areas affect the store revenues.

Source: http://etd.ohiolink.edu/view.cgi/Niti%20Duggal.pdf?kent1196133312

5.3 Marketing in Retail

Marketing has been defined as "the process by which individuals and groups obtain what they want and need through creating, offering and freely exchanging products and services of value with others".

Meaning of marketing is to identify the customer needs and satisfy those needs as desired by the customer. But every player who exists in the market is doing the same. Therefore the companies started wondering what next? They realized that they need to focus on long term profitable customers. Only the way is to best of the best action plan and relationship building. For that purpose every marketer is quoting their own business equations.

The Return Exchange is evolving to become the Retail Equation. This change is all about growth and opportunity. While The Return Exchange has been focused on return authorizations, today we are seeing strong demand for broader return optimization solutions that extend well beyond fraud. Therefore, our new name is an evolution, not a dramatic change, reflecting the fact that our business growth will be driven by our ability to predict shopper behaviour and optimize all retail transactions

Lab Exercise Go to website http://www.ikea.com/ms/en_US/customer_service/return_policy/index.html and gather more information on appliance warranty and repair.

Due to the globalization every body come and launch their products in India, theory by most of the Indian business were lost certain percentage of market share. Most producers no longer sell their product to the final consumer. The marketing channel design is largely based on the level of service desired by the target consumer. Here, the retailer provides valuable inputs to the manufacturers on the products and the consumers.

Manufacturers or suppliers who offer products for immediate consumption are known as direct manufacturers or suppliers.

Example: Eureka Forbes, whose door to door sales men offer its products to customers, is an example of a company which offers its products directly to the consumers.

Most of the market occupied with unorganized products. The hyper markets became the good platforms to the unregistered brands. Just to spend on manufacturing cost and push it out in the market through retailer.

The other perspective of looking at the marketing-retail relationship is from that of the retail industry itself. Every retailer needs marketing. The marketing efforts of multibrand retailer like Food World and shopper's stop are different from those of an own brand retailer like Wes side. However the basic principles of marketing are no different for a retailer than for any other supply organization.

Notes

Notes Modern marketing theory may have stemmed from producers of fast moving consumer goods; more recent developments such as relationship marketing and interactive marketing have evolved from the needs of service providers. These new marketing activities gained the immense popularity which can act as a bridge between customer and manufacturer.

Retailing Needs to Cross the Following Hurdles

1. The first challenge facing the organized retail sector is the competition from unorganized retail sector.
2. Customer service expectations are high at a time when more retailers offer self-service and automated systems. At the same time, many retailers remain unsure what to do with the web; they are still grappling with the emphasis to place on image enhancement, customer information and feedback, and sales transactions.
3. In retail sector, Automatic approval is not allowed for foreign investment.
4. Lack of trained work force.
5. Intrinsic complexity of retailing – rapid price changes, threat of product obsolescence and low margins.
6. Cost of business operations is very high in India.

Self Assessment

Fill in the blanks:

11. Return Exchange becomes the Retail .....
12. The Return Exchange has been focused on return .....
13. Due to the ..... every body come and launch their products in India.
14. Manufacturers or suppliers who offer products for immediate consumption are known as ..... manufacturers or suppliers.
15. Every retailer needs .....

Case Study

Retail Math Formulas

Retail math is often used in various ways by store owners, managers, retail buyers and other retailing employees. It is used to evaluate inventory purchasing plans, analyze sales figures, add on markup and apply markdown pricing to plan stocks.

Although there are computer programs and other tools available, performing these retail math calculations often requires familiarity with formulas. Use the following equations and retail math formulas to track merchandise, measure sales performance and help create pricing strategies.

Contd....

Notes

Acid-Test Ratio

Acid-Test Ratio = Current Assets - Inventory ÷ Current Liabilities

Average Inventory

Average Inventory (Month) = (Beginning of Month Inventory + End of Month Inventory) ÷ 2

Basic Retailing Formula

Cost of Goods + Markup = Retail Price

Retail Price - Cost of Goods = Markup

Retail Price - Markup = Cost of Goods

Break-Even Analysis

Break-Even ($) = Fixed Costs ÷ Gross Margin Percentage

Contribution Margin

Contribution Margin = Total Sales - Variable Costs

Cost of Goods Sold

COGS = Beginning Inventory + Purchases - Ending Inventory

Gross Margin

Gross Margin = Total Sales - Cost of Goods

Gross Margin Return on Investment

GMROI = Gross Margin $ ÷ Average Inventory Cost

Initial Markup

Initial Markup % = (Expenses + Reductions + Profit) ÷ (Net Sales + Reductions)

Inventory Turnover (Stock Turn)

Turnover = Net Sales ÷ Average Retail Stock

Maintained Markup

MM $ = (Original Retail - Reductions) - Cost of Goods Sold

MM % = Maintained Markup $ ÷ Net Sales Amount

Margin %

Margin % = (Retail Price - Cost) ÷ Retail Price

Markup

Markup $ = Retail Price - Cost

Markup % = Markup Amount ÷ Retail Price

Net Sales

Net Sales = Gross Sales - Returns and Allowances

Open to Buy

OTB (retail) = Planned Sales + Planned Markdowns + Planned End of Month Inventory - Planned Beginning of Month Inventory

Contd....

Notes

Percentage Increase/Decrease

% Increase/Decrease = Difference between Two Figures ÷ Previous Figure

Quick Ratio

Quick Ratio = Current Assets - Inventory ÷ Current Liabilities

Reductions

Reductions = Markdowns + Employee Discounts + Customer Discounts + Stock Shortages

Sales per Square Foot

Sales per Square Foot = Total Net Sales ÷ Square Feet of Selling Space

Sell-Through Rate

Sell-Through % = Units Sold ÷ Units Received

Stock to Sales Ratio

Stock-to-Sales = Beginning of Month Stock ÷ Sales for the Month

Questions:

1. Analyze the case and interpret it.
2. Write down the case fact.
3. What do you conclude from it?

Source: http://retail.about.com/od/retailingmath/a/retail_formulas.htm

5.4 Summary

- Retailers typically keep a two-column ledger in order to fully understand what is going on with their business.
- In the left column, they keep a running record of the cost of the merchandise, the landed price including the cost of goods and shipping costs.
- In the right column, they keep a running record of the retail value of the merchandise, the sum of the retail price tickets on all the items in the store.
- A low turnover item must give you a high margin in order to pay the rent for sitting on your shelf for a long time.
- In contrast, a high turnover item obviously has to pay less rent, and therefore can make a lower margin.
- Products can vary dramatically in what they cost to sell.
- Some products (like glassware) break easily so customers or sales people are likely to damage a certain percentage of the stock.
- Certain goods have a tendency to disappear because of shoplifting (electronics).
- Others are extremely heavy or awkward to move from the warehouse to the selling floor, so the freight and handling costs may be high.

Notes

- If you are dealing with an importer directly or eventually importing your own products, you have eliminated the wholesaler or distributor from whom you were buying the goods.
- Once you establish a personal relationship with the overseas manufacturer, you may better control the quality, quantity, and timeliness of the merchandise you are buying.
- By importing a product featuring your name (and, possibly, your specifications), you can display an item that no competitor carries. That means you can sell it for whatever the market will bear without having to worry too much about what your competitors are doing.
- You can bring in a high quality, private label item to compete effectively with a higher-priced, branded product carried by your competitors. In this way, you may be able to enhance your low price reputation while still maintaining a comfortable margin.

5.5 Keywords

***Cost of Goods*:** Cost of Goods (COG) is what you pay the vendor for products.

***Initial Margin*:** Initial Margin is the difference between retail and cost (Retail – Cost = IM$), expressed as a percentage of retail.

Retailers: Retailers are part of an integrated system called the supply chain.

Retail Industry: The retail industry is at the centre of a dramatic shift in the way consumers shop and interact with retailers.

***Retail Selling Price*:** Retail Selling Price of Merchandise is what your customers pay the store for these goods.

Secure store: A secure store is a store that is experiencing less shrinkage than its competitors.

Stock to sales ratio: It is the amount of merchandise in the store at the beginning of a given month divided by the amount of sales of merchandise for the month.

Turnover of inventory, or turn: Turnover of inventory, or turn, is the calculation of how many times you sell and replenish the merchandise in your store over the course of a year.

5.6 Review Questions

1. Define the term retail arithmetic.
2. Why retail arithmetic is needed?
3. What is the significance of retail arithmetic?
4. Define COGs.
5. What is retail selling price?
6. How will you calculate initial margin?
7. What is meant by turnover of inventory?
8. What is Stock to sales ratio?
9. What is secure store?
10. What are the characteristics of secure store?

Notes

Answers: Self Assessment

1.	Two	2.	left
3.	right	4.	prior
5.	100	6.	True
7.	True	8.	True
9.	False	10.	True
11.	Equation	12.	Authorizations
13.	Globalization	14.	Direct
15.	marketing		

5.7 Further Readings

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Notes

Unit 6: Stock Management

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Objectives

After studying this unit, you should be able to:

- Define the term stock management
- Discuss relevance of stock management to retail operations
- Describe various types of stock checks
- Explain taking care of quality inside a store

Introduction

Retail Stock refers to the goods stocked for future use. Every retail chain has its own warehouse to stock the merchandise to be used when the existing stock replenishes. Retail Stock management refers to the storage of products to be used at the time of crisis. The retailer keeps a track of the stocked goods and makes sure there is surplus Retail Stock to avoid being "out of stock". Such a process is called as Retail Stock management.

Stock control, otherwise known as inventory control, is used to show how much stock you have at any one time, and how you keep track of it. It applies to every item you use to produce a product or service, from raw materials to finished goods. It covers stock at every stage of the production process, from purchase and delivery to using and re-ordering the stock. Efficient stock control allows you to have the right amount of stock in the right place at the right time. It ensures that capital is not tied up unnecessarily, and protects production if problems arise with the supply chain.

Notes

In this unit, we will discuss stock management .We will also focus on relevance of stock management to retail operations, various types of stock checks and taking care of quality inside a store.

6.1 Relevance of Stock Management to Retail Operations

Gone are the days when customers had limited options for shopping. In the current scenario, if a customer does not find the desired merchandise at one retail shop, he has a second brand to rely on. A retailer can't afford to loose even a single customer. It is really important for the retailer to retain his existing customers as well as attract potential buyers. The retailer must ensure that every customer leaves his store with a smile. Unavailability of merchandise, empty shelves leave a negative impression on the customers and they are reluctant to visit the store in near future. Retail Stock management prevents such a situation.

Did u know? One must understand that the products need some time to reach the store from the supplier's unit.

The retailer must have sufficient stock to offer to the customers during the "lead time". Managing Retail Stock also helps the retailer during situations beyond control like transport strikes, curfews etc. The retailer has ample stock as a result of judicious Retail Stock management even at the time of crisis.

6.1.1 Important Terminologies Used in Retail Stock Management

1. ***SKU (Stock Keeping Unit):*** Every product available at the store has a unique code. This code which helps in the identification and tracking of the products at the retail store is called as stock keeping unit or SKU.

   The retailer feeds each and every SKU in the master computer and can easily track the product in the stock just by entering the SKU Number.

Caution Assigning a unique code to the products avoids unnecessary searching.

Example: Let us take the example of "Numero Uno" which stocks denims, shirts, T Shirts and targets both men as well as women.

SKU for Shirts

- NU – M–40-FL-W
- NU - M-38-FL-B

Where:

NU stands for Numero Uno

M - Men

40 - Collar Size

FL - Full Sleeves

W - White (Colour of the shirt)

Notes

In the same way B in the second example would stand for Blue.

Simply typing NU – M–40-FL-W would let the retailer know whether the particular merchandise is available with him or not.

2. ***New Old Stock (Abbreviated as NOS):*** The stock which is never been sold by the retailer and now not even being manufactured comprises the new old stock. Such products do not have takers and may not be produced any more.

3. ***Stock out:*** Stock out refers to a situation when the retailer fails to fulfill the customer's requirement due to lack of merchandise. The merchandise is not available in the current Retail Stock and thus the customer has to return home empty handed.

6.1.2 How Much Stock Should You Keep?

Deciding how much stock to keep depends on the size and nature of your business, and the type of stock involved. If you are short of space, you may be able to buy stock in bulk and then pay a fee to your supplier to store it, calling it off as and when needed.

Keeping little or no stock and negotiating with suppliers to deliver stock as you need it.

Table 6.1: Advantages and Disadvantages of Keeping Little or No Stock

Advantages	Disadvantages
Efficient and flexible – you only have what you need, when you need it	Meeting stock needs can become complicated and expensive
Lower storage costs	You might run out of stock if there's a hitch in the system
You can keep up to date and develop new products without wasting stock	You are dependent on the efficiency of your suppliers

This might suit your business if it's in a fast-moving environment where products develop rapidly, the stock is expensive to buy and store, the items are perishable or replenishing stock is quick and easy.

Keeping Lots of Stock

Table 6.2: Advantages and Disadvantages of Keeping Lots of Stock

Advantages	Disadvantages
Easy to manage	Higher storage and insurance costs
Low management costs	Certain goods might perish
You never run out	Stock may become obsolete before it is used
Buying in bulk may be cheaper	Your capital is tied up

This might suit your business if sales are difficult to predict (and it is hard to pin down how much stock you need and when), you can store plenty of stock cheaply, the components or materials you buy are unlikely to go through rapid developments or they take a long time to re-order.

Stock levels depending on type of stock

Notes

There are four main types of stock:

Raw Materials and Components

Ask yourself some key questions to help decide how much stock you should keep:

- How reliable is the supply and are alternative sources available?
- Are the components produced or delivered in batches?
- Can you predict demand?
- Is the price steady?
- Are there discounts if you buy in bulk?

Work in Progress – Stocks of Unfinished Goods

Keeping stocks of unfinished goods can be a useful way to protect production if there are problems down the line with other supplies.

Finished Goods Ready for Sale

You might keep stocks of finished goods when:

- demand is certain
- goods are produced in batches
- you are completing a large order

Consumables

The examples of consumables include fuel and stationery. How much stock you keep will depend on factors such as:

- reliability of supply
- expectations of price rises
- how steady demand is
- discounts for buying in bulk

Self Assessment

Fill in the blanks:

1. Retail Stock refers to the goods stocked for ..... use.
2. Every retail chain has its own warehouse to stock the merchandise to be used when the existing stock .....
3. Retail Stock management refers to the storage of products to be used at the time of .....
4. The retailer must have sufficient stock to offer to the customers during the “.....”.
5. Managing Retail Stock also helps the retailer during situations ..... control like transport strikes, curfews etc.

Notes

6.2 Various Types of Stock Checks

There are several methods for controlling stock, all designed to provide an efficient system for deciding what, when and how much to order.

You may opt for one method or a mixture of two or more if you have various types of stock. For further information, see the page in this guide on types of stock.

- ***Minimum stock level:*** You identify a minimum stock level, and re-order when stock reaches that level. This is known as the Re-order Level.
- ***Stock review:*** You have regular reviews of stock. At every review you place an order to return stocks to a predetermined level.

Just In Time (JIT) – This aims to reduce costs by cutting stock to a minimum. Items are delivered when they are needed and used immediately. There is a risk of running out of stock, so you need to be confident that your suppliers can deliver on demand.

These methods can be used alongside other processes to refine the stock control system. For example:

Re-order lead time – Allows for the time between placing an order and receiving it.

Economic Order Quantity (EOQ) – A standard formula used to arrive at a balance between holding too much or too little stock. It's quite a complex calculation, so you may find it easier to use stock control software.

Batch control – Managing the production of goods in batches. You need to make sure that you have the right number of components to cover your needs until the next batch.

If your needs are predictable, you may order a **fixed quantity** of stock every time you place an order, or order at a **fixed interval** – say every week or month. In effect, you're placing a standing order, so you need to keep the quantities and prices under review.

First in, first out – A system to ensure that perishable stock is used efficiently so that it doesn't deteriorate. Stock is identified by date received and moves on through each stage of production in strict order.

Notes Effective stock control is essential in the retail industry. The more stock a store holds the greater the amount of money that is tied up and this can have a significant effect on company profits. Different stores have different ways of controlling and ordering new stock.

Self Assessment

State whether the following statements are true or false:

6. There is only a single method for controlling stock, all designed to provide an efficient system for deciding what, when and how much to order.
7. You identify a maximum stock level, and re-order when stock reaches that level. This is known as the Re-order Level.
8. Just in Time (JIT) aims to increase costs by cutting stock to a minimum.
9. Re-order lead time does not allow for the time between placing an order and receiving it.
10. The more stock a store holds, the lesser is the amount of money that is tied up and this can have a significant effect on company profits.

Notes

Caselet

Stock Management

There can be nothing more frustrating for a salon owner than seeing discarded colour tubes that are only half used, excess product being washed down the drain or not having the most popular treatments or retail products as they're out of stock.

Having a good stock management process reduces waste and can have a hugely positive impact on your cashflow.

Zambezi Hair Salon in Wellington, NZ is a great example of a business that does stock management well.

Here is a summary of their process:

- Only one tube or bottle of product is open at a time in each product type.
- Each product box is white-stickered when it's opened and staff members use their own colour pen to mark on the sticker the amount used and the amount remaining. This is done by percentage or fraction rather than weight as markers are already on most tubes.
- Client cards are also marked with the amount of product used and are billed for this amount. At the end of each day, client cards are checked against product used, as labelled, to make sure both sets of records match up. This closes the loop.
- Any product checked out of retail for professional use is clearly labelled for salon use making it easy to do a visual audit around the salon. Once empty, these bottles go in the stock bin to be counted.
- Once a week a complete stock take is done for both professional use and retail products by printing off the stock take report and checking actual against expected amounts. Stock take takes about one hour and is done by the same people each week (one person checks retail and another checks professional stock) to keep the process consistent.
- Big bottles such as shampoos are only checked out once they are empty which means they are counted as 'one' during stock take until they are finished.
- Once stock take is complete, the system is adjusted for variations and stock that is low is re-ordered using the auto-order by minimum function on Kitomba.

Source: http://www.kitomba.com/blog/case-study-stock-management/

6.3 Taking Care of Quality Inside a Store

Stock taking involves making an inventory, or list, of stock, and noting its location and value. It's often an annual exercise – a kind of audit to work out the value of the stock as part of the accounting process.

Codes, including barcodes, can make the whole process much easier but it can still be quite time-consuming. Checking stock more frequently – a rolling inventory – avoids a massive annual exercise, but demands constant attention throughout the year. Radio Frequency Identification (RFID) tagging using handheld readers can offer a simple and efficient way to maintain a continuous check on inventory. Any stock control system must enable you to:

- track stock levels

Notes

- make orders
- issue stock

The simplest manual system is the stock book, which suits small businesses with few stock items. It enables you to keep a log of stock received and stock issued. It can be used alongside a simple re-order system.

Example: The two-bin system works by having two containers of stock items. When one is empty, it's time to start using the second bin and order more stock to fill up the empty one.

Stock cards are used for more complex systems. Each type of stock has an associated card, with information such as:

- description
- value
- location
- re-order levels, quantities and lead times (if this method is used)
- supplier details
- information about past stock history

More sophisticated manual systems incorporate coding to classify items. Codes might indicate the value of the stock, its location and which batch it is from, which is useful for quality control.

Lab Exercise Go to website http://www.gliquality.org/activity/prepare-stock-cards-each-stock-item-either-paper-or-electronically and gather more information on Preparing stock cards for each stock item (either on paper or electronically).

6.3.1 Stock Control Systems – Keeping Track Using Computer Software

Computerised stock control systems run on similar principles to manual ones, but are more flexible and information is easier to retrieve. You can quickly get a stock valuation or find out how well a particular item of stock is moving.

A computerized system is a good option for businesses dealing with many different types of stock. Other useful features include:

- Stock and pricing data integrating with accounting and invoicing systems. All the systems draw on the same set of data, so you only have to input the data once.
- Sales Order Processing and Purchase Order Processing can be integrated in the system so that stock balances and statistics are automatically updated as orders are processed.
- Automatic stock monitoring, triggering orders when the re-order level is reached.
- Automatic batch control if you produce goods in batches.
- Identifying the cheapest and fastest suppliers.
- Bar coding systems which speed up processing and recording. The software will print and read bar codes from your computer.
- Radio Frequency Identification (RFID) which enables individual products or components to be tracked throughout the supply chain.

Notes

The system will only be as good as the data put into it. Run a thorough inventory before it goes "live" to ensure accurate figures. It's a good idea to run the previous system alongside the new one for a while, giving you a back-up and enabling you to check the new system and sort out any problems.

Choose a System

There are many software systems available. Talk to others in your line of business about the software they use, or contact your trade association for advice.

Make a checklist of your requirements.

Example: Your needs might include:

- multiple prices for items
- prices in different currencies
- automatic updating, selecting groups of items to update, single-item updating
- using more than one warehouse
- ability to adapt to your changing needs
- quality control and batch tracking
- integration with other packages
- multiple users at the same time

Avoid choosing software that's too complicated for your needs as it will be a waste of time and money.

6.3.2 Using RFID for Inventory Control, Stock Security and Quality Management

Radio Frequency Identification (RFID) allows a business to identify individual products and components, and to track them throughout the supply chain from production to point-of-sale.

An RFID tag is a tiny microchip, plus a small aerial, which can contain a range of digital information about the particular item. Tags are encapsulated in plastic, paper or similar material, and fixed to the product or its packaging, to a pallet or container, or even to a van or delivery truck.

The tag is interrogated by an RFID reader which transmits and receives radio signals to and from the tag. Readers can range in size from a hand-held device to a "portal" through which several tagged devices can be passed at once, e.g. on a pallet. The information that the reader collects is collated and processed using special computer software. Readers can be placed at different positions within a factory or warehouse to show when goods are moved, providing continuous inventory control.

Using RFID tagging for stock control offers several advantages over other methods such as barcodes:

- tags can be read remotely, often at a distance of several metres
- several tags can be read at once, enabling an entire pallet-load of products to be checked simultaneously

Notes

- tags can be given unique identification codes, so that individual products can be tracked
- certain types of tag can be overwritten, enabling information about items to be updated, e.g. when they are moved from one part of a factory to another

Task Did you find any difference between tag and barcode? Justify your answer.

RFID tagging can be used:

- to prevent over-stocking or under-stocking a product or component
- for stock security, by positioning tag-readers at points of high risk, such as exits, and causing them to trigger alarms
- for quality control, particularly if you make or stock items with a limited shelf life

The costs associated with RFID tagging have fallen over recent years, and continue to do so, to bring the process within the reach of more and more businesses. The benefits of more efficient stock control and improved security make it particularly attractive to retailers, wholesalers or distributors who stock a wide range of items, and to manufacturers who produce volume runs of products for different customers.

6.3.3 Stock Security

Keeping stock secure depends on knowing what you have, where it is located and how much it is worth – so good records are essential. Stock that is portable, does not feature the business' logo, or is easy to sell on, is at particular risk.

Thieves and Shoplifters

A thief coming in from outside is an obvious threat. Check the security around your premises to keep the risk to a minimum. In a store, thieves may steal in groups – some providing a distraction while others take goods. Teach your staff to be alert and to recognise behaviour like this. Set up a clear policy and make sure staff is trained in dealing with thieves.

Offering to help a customer if you are suspicious will often prevent a theft. Avoid using confrontational words like "steal" if you do have to approach a suspected thief, and avoid getting into a dangerous situation.

Protect Your Stock

- Identify and mark expensive portable equipment (such as computers). If possible, fit valuable stock with security tags – such as Radio Frequency Identification tags – which will sound an alarm if they are moved.
- Don't leave equipment hanging around after delivery. Put it away in a secure place, record it and clear up packaging. It is a good idea to dispose of packaging securely – leaving boxes in view could be an advertisement to thieves.
- Take regular inventories.
- Put CCTV in parking lots and other key locations.

Notes

Theft by Staff

Theft by employees can sometimes be a problem. To prevent this:

- Train staff about your security systems and your disciplinary policies and procedures. Training about the cost of stock theft will help, as many people aren't aware of the implications for company turnover and job security.
- Set up procedures to prevent theft. Staff with financial responsibilities should not be in charge of stock records.
- Restrict access to warehouses, stockrooms and stationery cupboards.
- Regularly change staff controlling stock to avoid collusion or bad practice.

6.3.4 Control the Quality of Your Stock

Quality control is a vital aspect of stock control – especially as it may affect the safety of customers or the quality of the finished product.

Efficient stock control should incorporate stock tracking and batch tracking. This means being able to trace a particular item backwards or forwards from source to finished product, and identifying the other items in the batch.

Goods should be checked systematically for quality, faults identified and the affected batch weeded out. This will allow you to raise any problems with your supplier and at the same time demonstrate the safety and quality of your product.

With a good computerised stock control system, this kind of tracking is relatively straightforward. Manual stock control methods can also use codes to systematise tracking and make it easier to trace particular batches.

Radio Frequency Identification (RFID) can be used to store information about a product or component's manufacturing date, to ensure that it is sold or processed in time. The system can also be used to trace faulty products quickly and efficiently. See the page in this guide on using RFID for inventory control, stock security and quality management.

Stock Control Administration

There are many administrative tasks associated with stock control. Depending on the size and complexity of your business, they may be done as part of an administrator's duties, or by a dedicated stock controller.

For security reasons, its good practice to have different staff responsible for finance and stock.

Typical paperwork to be processed includes:

- delivery and supplier notes for incoming goods
- purchase orders, receipts and credit notes
- returns notes
- requisitions and issue notes for outgoing goods

Stock can tie up a large slice of your business capital, so accurate information about stock levels and values is essential for your company's accounting.

Figures should be checked systematically, either through a regular audit of stock – stocktaking or an ongoing program of checking stock – rolling inventory.

If the figures don't add up, you need to investigate as there could be stock security problems or a failure in the system.

Notes

Health and Safety

Health and safety aspects of stock control are related to the nature of the stock itself. Issues such as where and how items are stored, how they are moved and who moves them might be significant – depending on what they are.

Self Assessment

Fill in the blanks:

11. ..... involves making an inventory, or list, of stock, and noting its location and value.
12. Stock taking is often an ..... exercise.
13. Stock taking is a kind of ..... to work out the value of the stock as part of the accounting process.
14. Radio Frequency Identification (RFID) tagging using handheld readers can offer a simple and efficient way to maintain a ..... check on inventory.
15. A computerized system is a good option for businesses dealing with many ..... types of stock.

Case Study

Stock Control

Wasp InventoryControl Provides the Healing Touch for Stock at Great Ormond Street Hospital

Conceived in 1852 as the UK's first pediatric hospital, the Great Ormond Street Hospital (GOSH) opened its doors on Valentine's Day with just ten beds. Presently, GOSH is the only exclusively-specialist pediatric hospital in the UK, treating over 150,000 patients each year for the rarest and most complex conditions. GOSH is a national centre of excellence in the provision of specialist children's healthcare, delivering the widest range of specialist care of any children's hospital in the UK, all at no cost to the patient.

As an NHS Trust, cost saving and improved productivity are priorities for GOSH. The cardiac catheterisation laboratory at GOSH utilizes high-cost consumables on a daily basis, requiring greater focus on accountability and reducing costs. GOSH needed a way to computerize stock in order to reduce wastage of expired stock and to supply accurate costing for each procedure to commissioners that pay for GOSH services.

The Move to Inventory Control

In accordance with the rules governing GOSH, the hospital sought a solution designed to improve efficiency and accuracy of stock control. The Great Ormond Street Hospital purchased Wasp MobileInventory (now sold as InventoryControl), as well as a Wasp handheld device for mobile scanning.

Contd....

Notes

Implementation was simple. After categorizing the catheterisation lab's stock into logical, manageable sections, a consistent nomenclature for item descriptions was developed. The items were then entered into the Wasp database, and barcodes generated for each individual stock item. Rather than placing a barcode label on each stock item, the hospital elected to create a folder containing the barcodes of the stock items.

Now, managing stock is efficient and intuitive. As cath lab stock arrives in the department, it is scanned into stock, and then removed upon use. The mobile device allows staff to scan cath lab inventory out of stock as it is used on the patient. Determining accurate cost per procedure is easy and compelling with the Wasp software. Using Crystal Reports, which seamlessly integrates with Inventory Control, GOSH customized a professional-looking report that includes a list of the items used and total cost for each procedure. The lab now has access to a variety of reports, including total cost of cosumables used per month and per year, average cost of certain procedures, and total value of items in stock, with the click of a button.

Complicated, inaccurate end-of-year stock audits are no longer an issue for GOSH. Inventory Control offers audit functionality, allowing the hospital to compare physical inventory to the database and create discrepancy reports.

A lab representative elaborates, "The Wasp system is flexible and provides a good value for our money. It is an efficient stock control solution in a clinical environment."

Questions:

1. Analyze the case and interpret it.
2. Write down the case fact.
3. What do you conclude from it?

Source: http://www.waspbarcode.co.uk/stock_control/case_GOSH.asp

6.4 Summary

- Retail Stock refers to the goods stocked for future use.
- Every retail chain has its own warehouse to stock the merchandise to be used when the existing stock replenishes. Retail Stock management refers to the storage of products to be used at the time of crisis.
- The retailer keeps a track of the stocked goods and makes sure there is surplus Retail Stock to avoid being "out of stock". Such a process is called as Retail Stock management.
- The stock which is never been sold by the retailer and now not even being manufactured comprises the new old stock. Such products do not have takers and may not be produced any more.
- Stock out refers to a situation when the retailer fails to fulfill the customer's requirement due to lack of merchandise.
- The merchandise is not available in the current Retail Stock and thus the customer has to return home empty handed.
- Effective stock control is essential in the retail industry.

Notes

- The more stock a store holds the greater the amount of money that is tied up and this can have a significant effect on company profits.
- Different stores have different ways of controlling and ordering new stock.
- Stock taking involves making an inventory, or list, of stock, and noting its location and value. It's often an annual exercise – a kind of audit to work out the value of the stock as part of the accounting process.
- Codes, including barcodes, can make the whole process much easier but it can still be quite time-consuming.
- Checking stock more frequently – a rolling inventory – avoids a massive annual exercise, but demands constant attention throughout the year.
- Radio Frequency Identification (RFID) tagging using handheld readers can offer a simple and efficient way to maintain a continuous check on inventory.

6.5 Keywords

Batch control: Managing the production of goods in batches. You need to make sure that you have the right number of components to cover your needs until the next batch.

Economic Order Quantity (EOQ): A standard formula used to arrive at a balance between holding too much or too little stock. It's quite a complex calculation, so you may find it easier to use stock control software.

First in, first out: This is a system to ensure that perishable stock is used efficiently so that it doesn't deteriorate. Stock is identified by date received and moves on through each stage of production in strict order.

Just In Time (JIT): This aims to reduce costs by cutting stock to a minimum. Items are delivered when they are needed and used immediately.

New Old Stock (NOS): The stock which is never been sold by the retailer and now not even being manufactured comprises the new old stock. Such products do not have takers and may not be produced anymore.

Re-order lead time: It allows for the time between placing an order and receiving it.

Retail Stock: Retail Stock refers to the goods stocked for future use.

Retail Stock management: Retail Stock management refers to the storage of products to be used at the time of crisis.

SKU: Code which helps in the identification and tracking of the products at the retail store is called as stock keeping unit or SKU.

Stock out: Stock out refers to a situation when the retailer fails to fulfill the customer's requirement due to lack of merchandise.

6.6 Review Questions

1. What is meant by retail stock?
2. Define the term retail stock management.
3. Define SKU.
4. What is meant by NOS?

Notes

5. How will you explain stock out?
6. Explain the Just in Time (JIT) technique.
7. What is the significance of having Re-order lead time?
8. Explain Economic Order Quantity (EOQ).
9. What is the importance of Batch control?
10. Explain first in, first out method.

Answers: Self Assessment

1.	future	2.	replenishes
3.	crisis	4.	lead time
5.	beyond	6.	False
7.	False	8.	False
9.	False	10.	False
11.	Stock taking	12.	annual
13.	audit	14.	continuous
15.	different		

6.7 Further Readings

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Unit 7: Store Audit

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Objectives

After studying this unit, you should be able to:

- Define store appearance
- Discuss presentation
- Describe stock
- Analyze concept of cleanliness.

Introduction

Retail audit involves the study of a selected sample of retail outlets, provided as subscription-based service by market research firms. Retail-audit service providers gather information on a brand's sales volume, sales trends, stock levels, effectiveness of in-store display and promotion efforts, and other associated aspects.

In this unit, we will discuss store appearance and presentation. We will also focus on stock, cleanliness.

7.1 Concept of Store Audit

Many retail store audit functions, challenged by resource and budget limitations, multiple business locations, and regulatory reforms, are turning to technology to manage the often vast

Notes

quantities of information associated with store audits. Yet, while audit software has been available for several years and offers a viable solution for the store audit process, some retail organizations are not ready to implement and manage it. Other priorities, such as new regulatory processes, annual audit projects and limited man-hours, are keeping internal audit, loss prevention or store operations functions from venturing into the electronic store audit world.

7.1.1 Retail Audit

Retail audit is a tool that opens up new option for strategic move in the market. It helps every marketer to find an optimum brand/product portfolio for target segment with finest communication vehicle and the flexible interiors for high product accessibility.

Notes In order to perform a retail audit the marketer should keep the following views in mind.

1. ***Psychographics of consumer:*** to draft retail value chain.
2. ***Brand Portfolio:*** to fill retail value chain draft with brands and products.
3. ***Retail Format:*** to fill the retail value chain draft with resources.
4. ***Service blue prints:*** to connect the resources and brand/products in a retail value chain.

Psychographic of Consumers: The value chain blue prints of retail must be designed with consumer psychographic in mind.

The following things must be kept in mind while designing the value chain blue prints.

1. Life style of your consumers
2. Time they plan for shopping
3. Key driver for shopping (passing time, Money)
4. Vehicle they use usually to travel
5. Their disposable income
6. Brand, Price or Value consciousness (BPV Analysis)

The psychographic of consumers helps to draft the value chain blue print for a retail business. Moving further will serve the purpose to check what brands/product mix we have to fill the draft of value chain.

Brand Portfolio: It defines the brand/product span with which we have to click the consumers. Every retail product line must have a combination of products for serving the two basic strategic purposes:

1. Penetration builders
2. Profit builders

Most of brand/product retail portfolio is based on proliferation but if you see the effects in the long term it will cause product placement insufficiency. The symptoms can be concluded by the increasing footfall but stagnation of conversion rate.

Caution You must ensure that the products are placed at the right placed inside your shop.

Notes

A complete psychological process starts when a consumer enters the shop and continues till he buys and leaves the shop. Your products and brand are in a phase of advertisement for that time. In the first two minutes consumer views a bunch of products and the combine brand position will create a mind set of consumers. For instance in a show room display, if Citizen and Tag Hueur's latest wrist watch are displayed at the gate side, the brand image of your store is likely to be right up there.

Retail Format: It has to fill the value chain of retail by resources. The main objective of retail format should be to make consumers process of shopping very cosy. The factors which affect the process are:

1. People involved
2. System Involved
3. Infrastructure (Show Room space, Parking space, interiors, sitting arrangement).

Service Blue Prints**:** It connects the brand or product with the resources for accessibility to consumers. Service is not only inside the showroom but also outside (parking facilitating and others).

Analyzing Performance of Retail Audit: The end result of retail audit must be to increase the profit/square feet. Behind this figure enhancement, you can guess the mechanism of each unit and factor under a system.

Self Assessment

Fill in the blanks:

1. ..... involves the study of a selected sample of retail outlets, provided as subscription-based service by market research firms.
2. Retail-audit service ..... gather information on a brand's sales volume, sales trends, stock levels, effectiveness of in-store display and promotion efforts, and other associated aspects.
3. Retail audit is a tool that opens up new option for ..... move in the market.

Caselet

Red Rooster

The first red rooster restaurant was opened in Western Australia in 1972 and has grown to become Australia's largest roast chicken operator. Red Rooster has over 360 stores and employs around 5000 staff. In addition to their long established roast A-grade fresh chicken and famous chips, red rooster also offers healthy baguettes and salads, plus delicious burgers and wraps.

BrandM8 is being used by 20 red rooster area managers to conduct regular **store audits for 360 stores** across Australia. The store audits are carried out on a PDA and the checklist data is automatically fed back into the BrandM8 Head Office database. A range of customised reports have been created and these can be automatically e-mailed to managers and Directors.

The introduction of BrandM8 has enabled red rooster to quickly and easily benchmark store operational performance and ensure that their standards are being met.

Source: http://www.moboinnovations.com/epos-solutions/compliance-and-audit/case-studies.html

Notes

7.2 Store Appearance

Store appearance include both interior and exterior look:

Store Appearance – Exterior

- Is the parking lot and sidewalk clean and well-lit?
- Are the windows clean?
- Are there miscellaneous fliers posted on the store front?
- Do any signs convey the correct image?
- Can the business be easily identified from the road?

Store Appearance – Interior

- Is the store's atmosphere and décor appealing to the consumer?
- Is the floor free of debris and appear clean?
- Are all light fixtures working properly? Does the store appear well-lit?
- Are interior signs consistent in font and colour?
- Does the store look full of inventory?

7.2.1 Seven Things Your Store's Appearance Tells Your Customers

Is It Worth Going In?

It is being consistently finding that consumers are paying less attention to advertising and more attention to store appearance. An exterior of a store generates 45% of an entire marketing image. This includes the building's appearance, the signage, the landscaping, and the parking area. Consumers form impressions about the quality and selection of merchandise inside the store based on what they see the outside of the store. Some retailers are aware of this, and the outside appearance of their store is carefully thought out. Selection is also critical.

Did u know? Consumers have been shopping less since 9/11.

They prefer to go to fewer stores and to go to stores where they know they're going to get a great selection. They don't want to have to look further.

One quarter of a consumer's decision to enter a store comes from the four-color circulars in the news paper. Advertisements like these can help or harm your selection image. You need to show a big assortment of merchandise in your advertisements and displays. Showing the same old stock can turn off customers. They'll think, "Well, that's all they've got."

Is There Something Happening in This Store That's Unlike Anywhere Else?

Seventy-three percent of the consumers in a survey believed that all stores within a particular category look alike. This is caused by the demise of good merchandising. By using computers to track stock and sales, retailers are merchandising their stores into sameness. Consumers want a unique shopping experience, and retailers need to under stand the importance of differentiation.

Notes

One way to do this is to have "showstoppers" that bring customers into the store. These are items that may not sell well but bring in business. An example is a furniture store that sells leather sofas. These are typically a pretty boring product. The storeowner could advertise or display a yellow, lavender, or red sofa and sell twice as many leather sofas. The dramatic colours catch attention, and shoppers will stop in and check them out. Chances are they'll still leave the store with a beige, green, or brown sofa, but it was the "showstoppers" that got them in. That's where the return on investment comes in.

Store Pride

When customers look around your store, do they get the impression that someone takes pride in the store? Is it clean? Is the merchandise well organized and displayed thoughtfully? Are the clothes on the racks in the correct size category? Not only does this show that staff and owners care, but it makes it easier for customers to find what they need. Shopping should not be work. An orderly store helps customers make buying decisions quickly and easily.

Financial Stability

One of the first things customers look at is gaps in merchandise displayed. Retailers don't always appreciate consumer's awareness of this. Regular customers will notice gaps the most, and, ironically, this can cause struggling stores to lose their best customers just when they need them most. If you've got ten some negative press about financial troubles, make sure your shelves are stocked to the hilt. Try to take the customer's perspective. Being privy to some one's financial struggles is a bummer.

Commitment to a Category

This is the single biggest weakness of retailers. When retailers think about adding a category of merchandise, they usually look at what the other stores are doing, and they devote the same amount of store space to a product category. To be successful, a retailer should make an effort to be known for some thing. Customers know they can find a shoe they like to have. Before you add an additional product category, you better make sure you have a big enough selection to make a commitment to it. The display has to convince consumers that this isn't just a fringe category for you.

Is This a Store of the Future?

Consumers also make judgments about a store based on signage, display racks, and even light fixtures. These tell your customers whether you're a store of today, yesterday, or tomorrow. Has your building looked the same for 30 years, or does your building's décor tell your customers that you're moving ahead? Are you using the old style fluorescent light fixtures rather than the newer ones that high light the merchandise? Do your displays and signage fit your customers' sense of style?

Is it Worth Returning?

A consumer is always trying to decide whether you want them to come back or not, and they'll make that decision based on their entire shopping experience. Was it easy to get in and out of the store? Were they able to find items quickly and easily? Were the sale items that were advertised or displayed actually available? This can go a lot further than just being the cheapest guy in town.

Notes

Self Assessment

State whether the following statements are true or false:

4. Consumers make judgments about a store based on signage, display racks, and even light fixtures.
5. An orderly store helps customers make buying decisions quickly and easily.
6. A consumer is always trying to decide whether you want them to come back or not, and they'll make that decision based on their entire shopping experience.

7.3 Presentation

Presentation includes displays that are organized and created to efficiently meet your customers' needs will assure continuing business from your existing customers and will entice prospective customer's to purchase from you. It is essential to consider what type of professional image you want to convey to the customer and your community when creating and organizing your facility. Consider the following questions when evaluating the image you want to promote in your community:

- What do I want people to think about first when they think about my store?
- How does my store and displays support this image?
- What do I think of first when I think about my store's appearance?
- How do other people respond to my store?
- What do people say when asked about my store's facility, staff and service?
- What frustrates me most about my store or product layout?
- What one word best describes my store?
- What excites me about my facility?
- What have I learned from considering these questions?

Product displays should be easy to locate. Proper signage can help guide customers and make it easier and more pleasant for them to find products and services customers to compare size, price, and features of products and makes it easier and convenient for your sales people to sell them. The display should make it easy to step to logical price points.

Self Assessment

Fill in the blanks:

7. ..... includes displays that are organized and created to efficiently meet your customers' needs that will assure continuing business from your existing customers and will entice prospective customer's to purchase from you.
8. Product displays should be easy to .....
9. Proper ..... can help guide customers and make it easier and more pleasant for them to find products and services customers to compare size, price, and features of products and makes it easier and convenient for your sales people to sell them.

Notes

Caselet

Hudsons Coffee

Hudsons Coffee came into inception satisfying the need for quality coffee with consistently superior service in a range of convenient locations. The brand has been embraced by its customers and through its adoption of a successful franchise platform the business has seen continued growth, with stores spanning a range of environments including central business districts, regional areas, airports and hospitals.

BrandM8 is used within Hudsons Coffee to conduct regular *store audits across 38 stores* nationwide. Each store has to undergo a regular detailed audit that covers customer service, product quality, food safety, health and safety, store ambience and cleanliness.

All store audit information is immediately available at head office, allowing them to benchmark store performance and highlighting areas of non conformance and corrective action required.

Source: http://www.moboinnovations.com/epos-solutions/compliance-and-audit/case-studies.html

7.4 Stock

Stock management in the retail supply chain follows the following sequence:

1. Request for new stock from stores to head office
2. Head office issues purchase orders to the vendor
3. Vendor ships the goods
4. Warehouse receives the goods
5. Warehouse stocks and distributes to the stores
6. Stores receive the goods
7. Goods are sold to customers at the stores

The management of the inventory in the supply chain involves managing the physical quantities as well as the costing of the goods as it flows through the supply chain.

In managing the cost prices of the goods throughout the supply chain, several costing methods are employed:

1. Retail method
2. Weighted Average Price method
3. FIFO (First In First Out) method
4. LIFO (Last In First Out) method
5. LPP (Last Purchase Price) method
6. BNM (Bottle neck method)

Task Gather information on LIFO, FIFO, LPP and BNM. Make a comparative study amongst them.

Notes

Under weighted average price method, the calculation can be done for different periods. If the calculation is done on a monthly basis, then it is referred to the periodic method. In this method, the available stock is calculated by:

- ADD Stock at beginning of period
- ADD Stock purchased during the period
- AVERAGE total cost by total quantity to arrive at the Average Cost of Goods for the period.

This Average Cost Price is applied to all movements and adjustments in that period. Ending stock in quantity is arrived at by applying all the changes in quantity to the Available balance. Multiplying the stock balance in quantity by the Average cost gives the Stock cost at the end of the period.

Using the perpetual method, the calculation is done upon every purchase transaction.

Thus, the calculation is the same based on the periodic calculation whether by period (periodic) or by transaction (perpetual).

The only difference is the 'periodicity' or scope of the calculation – Periodic is done monthly – Perpetual is done for the duration of the purchase until the next purchase.

In practice, the daily averaging has been used to closely approximate the perpetual method.

Bottle neck method depends on proper planning support.

Self Assessment

State whether the following statements are true or false:

10. The management of the inventory in the supply chain exclude managing the physical quantities as well as the costing of the goods as it flows through the supply chain.
11. Under weighted average price method, the calculation can be done for different periods.

7.5 Cleanliness

Cleanliness in Indian retail industry is of paramount importance. It is no more treated as a luxury expense. With the use of mops, microfibre, scrubber drier machines, cleanliness in retail has gone to the next level. In this context, we would like to extend some related tips to the readers on how cleanliness and hygiene in retail can impact the shopper/a potential customer to visit the store, when he/she has widely available options elsewhere.

Any store may have fabulous merchandise to sell, but if the store is dirty and cleanliness & hygiene is not maintained, will leave a very bad impression with the customer. Following are some of the points for maintaining consistent cleaning and hygiene:

First Impression Counts

- Store name board and logo at the entrance should be neatly maintained
- Parking area should be clean of litter and brightly lit (at nights)
- Entrance should be clean and inviting
- Security check points should be free from litter and should be presentable

Notes

Front Door Assumption

- Glass door should be clean and free of fingerprints.
- Customers will make the assumption that if the front door is dirty, rest of the store will also be dirty.

Make it glitter!

- If it's glass or metal it must be clean and sparkling.
- Make it a priority to dust and use glass cleaner every morning and after every 2 hours minimally.

Shoulders to Knees

- Customers notice majority of 'merchandising' between their shoulders and knees. Ensure that the shelves/display in this area should be ALWAYS kept clean.

Behind the scenes

- If the customer uses a trial room, keep it spotless and litter free. Eighty per cent of a customer's buying decision happens in a trial room.
- If you have a back stock area, keep it hidden from the customer's eyes!

Most Neglected Area – Washroom

- Customers can use the washroom anytime.
- Ensure that the washrooms are 'squeaky clean'. This will leave a positive impression of the company on the customers.
- Ensure to give utmost care to the staff washrooms as well. This will keep their motivation level high.

Clutter Free

- Shipping boxes, pallets, rolling racks, shipping materials....anything needed for the operation of the store should be out of site or neatly stored away from the traffic flow in the store.

Ease of Shopping

- Overstocking of merchandise can be overwhelming to the customer and they can 'assume' your store is messy merely because of the volume of merchandise. It should be easy to move around in the store.
- A stroller or wheelchair should easily move around the store.

Sweet Senses

- Does the store 'sense nice and sweet'? Customers can make an assumption of whether a store is clean based on what they smell, see, hear & touch.
- A dusty hand-railing, a noisy lift door is a complete no.

Notes

Check-out Area

The most important area of the store, no matter what kind, is the place you exchange the customer's hard earned money for something they value, your merchandise. Present it spotless.

Self Assessment

Fill in the blanks:

12. Customers notice majority of 'merchandising' between their ..... and .....
13. The most important area of the store, no matter what kind, is the place you exchange the customer's hard earned money for something they value, your .....

Caselet

Sun State Foods

Sun State Foods has a red rooster franchise with 24 stores across the state of Queensland. Each of the 24 stores has been equipped with a PDA running BrandM8, allowing each store to conduct daily in store food safety checks.

BrandM8 is used to conduct daily temperature checks for hot/cold food and equipment such as cool rooms. To ensure accurate and reliable temperature readings, the PDA is linked to a Bluetooth temperature probe that automatically records the temperature for each relevant question within the checklist. BrandM8 is also used to record daily cleaning checks within the store.

After each checklist has been completed the data is automatically sent to Sun State Foods centrally hosted BrandM8 server. Managers and Directors can run reports that provide them with up to date operational information across their 24 stores, allowing immediate action to be taken where necessary.

Source: http://www.moboinnovations.com/epos-solutions/compliance-and-audit/case-studies.html

7.6 Store Audits: Benefits

In some circles the word "audit" is considered a four-letter word—tax, financial, and operational audits are things to be feared and avoided. But now the word "audit" has turned to its status as a five-letter word. These co-ops have worked collaboratively to help each entity realize its greater potential.

Benefits for Your Business

- Customized audit checks – tailored to your business
- Remove hand written paperwork – clearer answers and automatic scoring system
- Green technology – stop wasting paper and save a few trees
- Better consistency – standardised questions ensure uniform data collection
- Automatic real-time action points – timely corrective action
- Reduce time spent in the field – increase location coverage
- Eliminate data reentry – save time at head office

Notes

- Improve reporting – reduce the time between check completion and data collation
- Web based reporting – access to information wherever you are
- Quick deployment of new checklists – instantly downloaded from HQ
- Store Ranking – compare stores based on points accumulation
- Store Compliance – measure stores against compliance to standards
- Assess Managers – re they performing the way you want
- Competition – use the data to introduce inter-store competition and rewards
- Expect more – remember, you can't expect what you don't inspect

This is not your ordinary audit, complete with bean counters and notes to financial statements. Instead, it's a process designed with the cooperative principles and missions in mind.

7.6.1 By Request of the Managers

Audits are actually a highly desirable activity for members of this group, requiring an official request from each store's manager to be added to the queue. The host store's manager prepares for the audit by giving these peers a list of items that they are reviewing.

The store audit process has evolved over the last decade from a simple checklist of "does well" to "needs improvement" into a tool tailored by each manager to learn about co-op operations. Managers (and a few key staff) learn things they might be otherwise too busy to stop and notice, or in some cases things they simply do not know. Some historic examples have included: signage issues, expansion plans, financial management, inside/outside, ingress/egress, traffic flow, product department management review, value added activities, IT, how to deal with the psycho shopper—and the list goes on.

This is an organic process that normally is a positive experience for all parties involved. It is common for those conducting the audits to benefit as much as those receiving the input. Ultimately, store managers can use this peer review to solve operational issues; to grow and develop the skills of the management team; and to prepare the manager to facilitate board education on growth and market-change issues.

An indirect but equally beneficial result of the audit is the "first impressions" that outsiders from your member community can provide. This technique is commonly used in other industries because it provides professionals input from those who share the same questions, struggles, and objectives.

7.6.2 Improved Performance and Accountability

The desired goal is to improve the performance of individual co-ops across the region and to foster accountability among the core management, all in a confidential environment. Peer visits also highlight the positive, especially when the host co-op shines and performs in the upper fourth.

Tips on Improving Retail Stores

Choose Effective Retail Displays

Retailers can improve a store's appearance and gain a customer's attention with retail displays, according to a July 2010 Retail Shopping Secrets report. Attract more customers by adding a

Notes

visual display in the store window and highlight the store's theme: A technology store could use a computer. Place similar visual displays near each other and keep each display clean.

Evaluate Retail Store Appearance

Take the time to evaluate the interior and exterior appearance of the retail store. The interior appearance must capture a customer's attention. An interior checklist can include the floor plan, mirrors and light fixtures. Store managers must analyze the exterior appearance of a retail establishment, such as the windows, window display signs and welcome store mats. A store manager can keep a copy of the retail store checklist in a safe location.

Wholesale Display Racks

Keep employees and supervisors interested in improving the retail store with meetings. Retail meetings can feel long to employees, so make sure the meeting has a purpose, and write a brief outline to cover general and specific topics. General retail topics can include store safety for customers and employees, such as mopping up spilled drinks. Specific retail topics can involve upcoming product lines or changing store locations.

Minimize Retail Merchandise Losses

Store managers can learn how to minimize merchandise losses. One method includes creating and using a retail inventory system, which shows when inventory sells and the price. This helps store managers recognize a sales pattern and investigate when too many items sell at once. Additional methods involve keeping small, higher-priced items in locked cases, placing retail security tags on larger items and using security cameras near entrances or exits.

Retain Store Employees

Retail managers can retain store employees. According to a July 2010 Multi Channel Merchant report, retail store managers face challenges when hiring and keeping store employees. Employee issues can involve lower paychecks, limited employer – employee communication and the lack of career growth. Store managers can help balance lower pay checks with enhanced benefits, such as medical insurance. Create an open-door policy, so employees can discuss and resolve issues before interfering with job performance. Offer job training to enhance career growth in similar retail occupations.

Lab Exercise Go to website http://smallbusiness.chron.com/can-retail-store-improve-21746.html and collect information on ways to improve retail stores.

Self Assessment

State whether the following statements are true or false:

14. Retail store managers face challenges when hiring and keeping store employees.
15. Employee issues do not involve lower pay checks, limited employer – employee communication and the lack of career growth.

Notes

Case Study

The Body Shop Approach to Stakeholder Auditing

Introduction

This case study focuses on how The Body Shop assesses its own business performance whilst taking into account its different stakeholder groups and their various aims and objectives.

In 1976, Anita Roddick opened the first The Body Shop in Brighton, selling 25 naturally-based skin and hair care products. The Body Shop International Plc now has over 1,500 stores in 47 countries selling over 400 different products. The Body Shop story, however, is not just of a highly successful market-oriented manufacturer and retailer of toiletries and cosmetics. Like its founder, the whole organisation is committed to issues such as respect for human rights, animal and environmental protection. The organisation has arranged and supported national and international campaigns on animal testing in the cosmetic industry, women's rights, anti-nuclear testing and coordinated an international protest at the sentencing and execution of environmental activist Ken Saro-Wiwa and other leaders in Nigeria who were fighting to protect their community from multi-national oil companies. All business organisations need to make a profit to survive but the emphasis at The Body Shop is on profit with a wider social responsibility i.e. 'profit with principles.'

The Body Shop Mission Statement

- To dedicate our business to the pursuit of social and environmental change.
- To creatively balance the financial and human needs of our stakeholders employees, franchisees, customers, suppliers and shareholders.
- To courageously ensure that our business is ecologically sustainable, meeting the needs of the present without compromising the future.
- To meaningfully contribute to local, national and international communities in which we trade, by adopting a code of conduct which ensures care, honesty, fairness and respect.
- To passionately campaign for the protection of the environment, human and civil rights and against animal testing within the cosmetics and toiletries industry.
- To tirelessly work to narrow the gap between principle and practice, whilst making fun, passion and care part of our daily lives.

Underpinning the Mission Statement is a Trading Charter which addresses the three principal ethical concerns of The Body Shop.

The Body Shop Trading Charter

We aim to achieve commercial success by meeting our customers' needs through the provision of high quality, good value products with exceptional service and relevant information which enables customers to make informed and responsible choices. Our trading relationships of every kind with customers, franchisees and suppliers will be commercially viable, mutually beneficial and based on trust and respect.

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Our trading principles reflect our core values. We aim to ensure that human and civil rights, as set out in the Universal Declaration of Human Rights, are respected throughout our business activities. We will establish a framework on this declaration to include criteria for workers' rights embracing a safe, healthy working environment, fair wages, no discrimination on the basis of race, creed, sex or sexual orientation, or physical coercion of any kind.

We will support long term sustainable relationships with communities in need. We will pay special attention to those minority groups, women and disadvantaged peoples who are socially and economically marginalised.

We will use environmentally sustainable resources wherever technically and economically viable. Our purchasing will be based on a system of screening and investigation of the ecological credentials of our finished products, ingredients, packaging and suppliers.

We will promote animal protection throughout our business activities. We are against animal testing in the cosmetics and toiletries industry. We will not test ingredients or products on animals, nor will we commission others to do so on our behalf. We will use our purchasing power to stop suppliers animal testing.

We will institute appropriate monitoring, auditing and disclosure mechanisms to ensure our accountability and demonstrate our compliance with these principles.

Stakeholders

Traditional economic theory suggests that the primary reason for a company's existence is to expand its profitable business. Assessing the company's performance becomes simply a question of comparing profit levels with forecasts and targets. The owners' prime objective is to maximise their wealth. The Body Shop, however, has been at the forefront of a growing number of companies who recognise that there are a number of different groups in society with an interest in its performance. These different groups, or stakeholders, may have different priorities. The way the business operates affects them and their expectations may influence the way a company sets its objectives and how it seeks to achieve them.

The Body Shop believes that it should be open and honest in its business dealings and first committed itself in 1991 to an active programme of ethical auditing. This has come to include:

- a social audit
- an environmental audit
- an animal protection audit

Employees

The Body Shop directly employs 2,500 staff at the Headquarters in Littlehampton and all company-owned facilities and shops in the UK. The employees' aspirations include job security and diversity, a fair income, promotion and training opportunities. Workers' rights, including a safe, healthy working atmosphere, fair wage rates and no discrimination on the grounds of race, gender, creed or sexual orientation are set out in The Body Shop Trading Charter. Senior managers must run the organisation in such a way as to satisfy the different groups of stakeholders. This may not be easy and conflicts of interest may develop. Priorities may have to be agreed and compromises made. The managers' jobs may be made harder as the different stakeholders' objectives may change over time according to how the firm is performing.

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Franchisees

The Body Shop is a multi-local business, built on franchising. Although the firm owns a number of shops, 1,300 of the 1,500 outlets are franchised. This has allowed the phenomenal growth rates of the firm over the last 21 years. Franchisees have the benefit of an easily recognised, proven product and brand name, guaranteed supplies, training and advice and the use of the company livery. Franchisees own their businesses and are dependant on them for income. This will, therefore, affect their objectives.

Customers

In the 52 weeks to 28th February 1997, The Body Shop recorded 87 million customer transactions. This means that every 0.4 seconds, someone, somewhere buys something from The Body Shop. Customer care therefore has become a crucial part of the trading policy. The Body Shop customers demand not only high quality, value for money products, but also recognise the need for environmental responsibility. The customer needs to be well-informed in order to make responsible choices.

Suppliers

The Body Shop has hundreds of suppliers, all of whom have their own stakeholders to satisfy. For smaller suppliers, profits and income may be significant, but also discounts and payment periods may be important. In 1990, The Body Shop introduced the idea of product stewardship which attempts to assess the credentials of ingredient suppliers, giving them a score from 0 to 3 stars based on their commitment to environmental management and auditing, water management and the ecological impact of the ingredients and packaging production. In order to assist the suppliers, The Body Shop has begun to share best practices and benchmarking.

Community Trade suppliers

This is a group of 25 suppliers in 13 countries (as at May 1997), such as Brazil, Ghana and Bangladesh, specifically chosen because they are struggling economically. The Body Shop believes that this trade should be more than the simple exchange of goods and currency. It wants to help create livelihoods and explore trade based approaches to supporting sustainable development by sourcing ingredients and accessories directly from socially and economically marginalized producer communities. The emphasis is on long-term trading relationships, seeking to work with the communities rather than exploit them for a profit. The Body Shop offers its knowledge, training, creativity and purchasing power in exchange for materials. These communities clearly have a stake in the future success of the organisation.

Shareholders

The Body Shop is a Public Limited Company and its shareholders are the legal owners. Individuals and institutions buy shares in order to make a return on their investment. Although shareholders may recognise the importance of social and environmental issues, the share price remains important. A falling share price can wipe millions of pounds off the value of a company. In theory, if the shareholders are dissatisfied with the performance of the company, they can remove the Board of Directors at the Annual General Meeting.

Although a firm has many objectives, it is part of a local community and therefore, has a responsibility to the community in which it operates and the local economy. In Littlehampton, for example, a town with unemployment above the national average, The Body Shop is the second largest employer. Job creation is therefore very important to the town. The Body Shop also allows its employees paid time off to do volunteer work in their local community.

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Notes

The Body Shop is committed to best practice in environmental management and is against animal testing on cosmetics and toiletries. All groups involved in these issues will be interested to see how The Body Shop performs. Their objectives may be different from other stakeholder groups and their measures of success may conflict.

Methodology

The word 'audit' may conjure up images of finance and accountancy, but an audit is simply a method of checking a firm's progress. How successful has it been compared to its stated objectives? With so many different interested groups, with contrasting aims and objectives, this is not as straightforward as it may appear. As with a financial audit, the first step is to find a suitable, credible independent organisation to verify the audit with its social audience. The Body Shop worked closely with the New Economics Foundation, a UK based think-tank, to design and tailor the audit methodology to The Body Shop.

The over-riding challenge of stakeholder, or social, auditing is finding a way to measure how people think. Some objectives, targets and performances are reasonably easy to quantify; if, for example, the local community's objective is to reduce regional unemployment, then new jobs created can be measured. Shareholders' dividends, employees' wages or customer complaints are quantifiable, but for many of the objectives, it is impossible to apply tangible measures such as numbers and statistics to intangible human thoughts and emotions. It is also important not to let the voice of one stakeholder drown others. Minority views need to be recognised and therefore the external verifier must ensure that the correct balance is struck. The Body Shop took a year to research, develop and formalise its social auditing procedures and since its adoption in 1994, a great deal of fine tuning has occurred.

The audit involves a mix of focus groups, market research-style questionnaires, face-to-face interviews and data collection. The information is collected from each of the stakeholder groups – in all, more than 5,000 people were consulted in the 1995 audit. As with any kind of audit, the true value can only be measured by what follows, so feedback processes and future action plans are critically important. The overriding objective of a stakeholder audit must be to make The Body Shop more efficient, more accountable and more effective. Therefore, the organisation must be completely open and honest and be prepared to acknowledge its failures as well as its successes. External, independent verification is also important if the report is to be a useful policy tool and not merely a marketing ploy.

Stakeholder Auditing

The Body Shop published its first Values Report in January 1996. Inevitably, the report contained both good and bad news:

Employees

- 75% of the employees said they were proud to be part of The Body Shop.
- 71% said they enjoyed their job.
- Nearly one in four felt they would have to change companies to develop their careers.

Franchisees

- All the international franchisees sampled agreed that the company takes active steps to make the business more environmentally responsible.
- 91% were satisfied with the communications on environmental management and auditing.

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- 35% either had no opinion or disagreed that The Body Shop portrays its business practices accurately to the public.

Customers

The Body Shop scored:

- 9 out of 10 for its 'Against Animal Testing' stance
- 7.8 out of 10 for its commitment to environmental responsibility
- 7.5 out of 10 for campaigning effectively on human rights, environmental protection and animal protection
- customer complaints rose from 18.3 per 100,000 in 1992/3 to 20.9 per 100,000 transactions in 1994/5

Suppliers

- 80% of suppliers recognised prompt payment, clarity of delivery and purchase order requirements and fairness of quality assurance arrangements.
- 20% disagreed or strongly disagreed that The Body Shop purchasing and logistics functions are well structured and efficient.

Community Trade suppliers

Despite a general fit with the Fair Trade Guidelines, a small number of partners, questioned by an independent organisation, were still struggling to be commercially viable in the conventional sense, even though there had been a range of social gains from The Body Shop relationship. However, from the shareholders' point of view:

- 90% agreed or strongly agreed that The Body Shop takes active steps to make its business more environmentally responsible
- only 29% thought that the company enjoyed the trust of the financial community
- 33% did not think that The Body Shop has a clear, long-term business strategy
- Local community

In 1994/5, The Body Shop staff gave 19,500 hours to projects in the community, but this commitment came from only 25% of the employees. As far as The Body Shop campaigns were concerned, more than 3 million signatures world-wide were collected calling for stricter enforcement of the Convention on International Trade in Endangered Species, but tragically a human rights campaign which started in 1993 failed to prevent the execution of Ken Saro-Wiwa and eight other Ogoni leaders by the Nigerian military government.

The Future – an On-going Process

A stakeholder audit must be evaluated on a continuing basis. The analysis of these results enables The Body Shop to plan for the future. For example, there are plans for:

- improved communications and more involvement of franchisees in decision making
- better internal communications with employees
- better indicators for monitoring customer satisfaction
- improvements in communication with and support for suppliers
- establishment of formal trading agreements with Community Trade suppliers and the launch of a six point plan for the encouragement of community volunteering

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For the shareholders, there were promises to adopt a progressive dividend policy and develop and build relationships with shareholders and prospective shareholders. Shareholders' interests would be maximised while also balancing the needs of other stakeholders. Following the publication of the results of a social audit, it is vital to obtain feedback from stakeholders and engage them in dialogue. This helps shape future audit cycles, enables indicators and data presentation to be fine-tuned for future cycles and helps set priorities for future action by the company.

Conclusion

The Body Shop sets itself very tough standards and has an exceptionally ambitious mission – to dedicate its business to the pursuit of social and environmental change. Measuring how well the company matches up to its ideals has been a huge challenge. Auditing of all forms is a new science and the principles and pitfalls need to be understood. When it comes to such open disclosure, the company can benefit greatly from the negative as well as the positive feedback to improve performance.

Questions:

1. Analyze the case and interpret it.
2. Write down the case fact.
3. What do you conclude from it?

Source: http://businesscasestudies.co.uk/body-shop/the-body-shop-approach-to-stakeholder-auditing

7.7 Summary

- Retail audit involves the study of a selected sample of retail outlets, provided as subscription-based service by market research firms.
- Retail-audit service providers gather information on a brand's sales volume, sales trends, stock levels, effectiveness of in-store display and promotion efforts, and other associated aspects.
- Selection is also critical.
- One of the first things customers look at is gaps in merchandise displayed. Retailers don't always appreciate consumer's awareness of this.
- Regular customers will notice gaps the most, and, ironically, this can cause struggling stores to lose their best customers just when they need them most.
- Presentation includes displays that are organized and created to efficiently meet your customers' needs will assure continuing business from your existing customers and will entice prospective customer's to purchase from you.
- It is essential to consider what type of professional image you want to convey to the customer and your community when creating and organizing your facility.
- The management of the inventory in the supply chain involves managing the physical quantities as well as the costing of the goods as it flows through the supply chain.

7.8 Keywords

Brand Portfolio: It defines the brand/product span with which we have to click the consumers.

***Infrastructure*:** It shows room space, parking space, interiors, sitting arrangement etc.

Notes

Inventory: Inventory is the total amount of goods or materials in a retail store.

Management of the inventory: The management of the inventory in the supply chain involves managing the physical quantities as well as the costing of the goods as it flows through the supply chain.

Presentation: Presentation includes displays that are organized and created to efficiently meet your customers' needs will assure continuing business from your existing customers and will entice prospective customer's to purchase from you.

Retail audit: Retail audit is a tool that opens up new option for strategic move in the market. It helps every marketer to find an optimum brand product portfolio for target segment with finest communication vehicle and the flexible interiors for high product accessibility.

Retail-audit service providers: Retail-audit service providers are individuals who gather information on a brand's sales volume, sales trends, stock levels, effectiveness of in-store display and promotion efforts, and other associated aspects.

Stakeholder Audits: Stakeholder audits are a proven process for monitoring corporate reputation among the stakeholders who matter.

7.9 Review Questions

1. Define the term store audit.
2. Why store audit is needed?
3. What is internal store audit?
4. What is external store audit?
5. Who are retail audit service providers?
6. What is brand portfolio meant for?
7. What is meant by store infrastructure?
8. What are presentation displays?
9. What is meant by term inventory?
10. What is management of inventory?

Answers: Self Assessment

1.	Retail audit	2.	Providers
3.	Strategic	4.	True
5.	True	6.	True
7.	Presentation	8.	Locate
9.	Signage	10.	False
11.	True	12.	Shoulders, Knees
13.	merchandise	14.	True
15.	False		

Notes

7.10 Further Readings

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Notes

Unit 8: HR in Operations

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Objectives

After studying this unit, you should be able to:

- Define Human Resource Management in Retail
- Discuss Human Resource Environment of Retailing
- Describe role of Retail Store Manager
- Analyze staffing your retail store
- Explain socializing and performance management

Introduction

For an organization, the human resources function "ensures that the company has the right mix of skilled people to perform its value creation activities effectively", thus creating more value.

Notes

How can a retailer utilize the best people to ensure that its customers have a pleasant shopping experience? This is the problem for human resource management. HRM and strategic HRM replace earlier personnel management theories – principal features of the new concepts in HRM include managerial focus, the perception of employees as organizational "recourse" the integration of all HR functions with each other and towards organizational goals and a long – term planning orientation.

Strategic HRM models will need to be also sufficient flexible to incorporate differential social, culture, economic and legislative conditions, and government policies. This unit deals with HR recruitment selection training and other maintained criteria. It also focus can different laws related to HR.

In this unit, we will study Human Resource Management in Retail and Human Resource Environment of Retailing. We will further focus on position of retail store manager, staffing retail store and performance management at the end.

8.1 Human Resource Management in Retail

World over, retail as an industry, employs a significant high number of people. Retail is the largest industry in United Kingdom and employs nearly three million people. In US, the figure is ten times the number.

However in India, attracting people to this industry and then retaining them is a challenge. The primary reason for such a situation is the poor image the business carries. Typically seen as "dukandari", the perception of the industry is poor and most people would be hesitant to look upon this industry as a career option.

Caution With the emergence of multiple formats, the demand for manpower is increasing and at the same time, has led to high attrition rates among most of the organized players in the market.

Under such circumstances, the special significance of the human resources cannot be undetermined. Retail being a part of service industry; it is the people within the organisation that can become the source of competitive advantage. This is true in more ways than one.

Notes In any retail organisation, the people who deal with the customers at a one-to-one level are considered as face of the organisation. Thus, people who work at store level are important. Hiring persons with the right attitude is important as in the case of most retail stores, the employees need to work for long hours, and they also need to work when the rest of the people may be on a holiday, e.g., on Sundays, occasions like Diwali, Christmas, etc. Secondly, the retailers need to have persons with the right skill sets taking care of functions like buying and merchandising, as the product is the key in retail set-up. In this section, we examine various aspects of human resources function in retail.

The Human Resources function in retail involves:

1. Identifying various roles in the organisation.
2. Recruitment and Selection.
3. Training.
4. Motivating employees.

Notes

8.1.1 Identifying the Various Roles in the Organization

The first step starts with the identification of the various tasks or jobs that need to be performed in the organisation. This helps in determining in the number of the people required for various jobs, the skill set and the educational background needed and the location where they would be based, depending upon the organisation structure defined and the size of the retail operation.

Key tasks in a typical retail organisation involve:

- Buying and merchandising,
- Store management and operations, and
- Technology support.

It is necessary that persons with right attitude and skills are recruited for the above mentioned functions as they are the key in any retail organisation. While professional qualifications the various tasks are important, it is also necessary to hire persons who understand consumer trends and technology and what it can provide.

8.1.2 Recruitment and Selection

After determining the tasks to be performed within the organisation, the jobs needed to be categorized on the basis of functional or geographic needs. The aim of the recruitment process is to make available, job applicants for specified jobs. Common ways of recruitment include newspaper advertisements, visit to colleges, existing employees, references, recruitment agencies and even websites.

Many organisations create an application blank, which has to be filled in by the applicant and it gives the details of the education, work, hobbies and family background. It helps the organisations obtain information about the applicant in a standard and structured manner. Once the applications are received, they are screened on the basis of the parameters which are important to the retailer. This serves the primary basis for acceptance or rejection of the candidate.

In the case of the most of the organisations, the candidates who are short-listed on the basis of the bio-data or application blank are called for a personal interview. A personal interview enables the interviewer to gauge the attitude of the person and his suitability for the desired job. Depending on the position applied for, the selection procedure may comprise of one or more interviews. When the candidate passes the interview stage, reference checks may be done and the final decision is taken.

Sources of Job Applicants: In the search for employees from external sources, the HR manager may want to employ one the following methods:

1. Local, regional, or national newspapers' help-wanted listings
2. Trade association publications, such as Supermarkets News
3. Direct applications (job seekers often send in unsolicited application letters and resumes)
4. Referrals (either internal or external)
5. Contracts with private employment agencies (sometimes called head-hunters) for high-level internal positions
6. Recruitment at colleges and universities, especially those with majors or courses in retailing, marketing, or related areas
7. Posting on electronic bulletin boards or recruitment companies such as monster.com

Notes

Recruiting Retail Personnel: Recruitment is the activity where by a retailer generates a list of job applicants. Table indicates the features of several key recruitment sources. In addition to these sources, the web is playing a bigger role in recruitment. Many retailers have a career or job section at their web site, and some sections are as elaborate as the overall sites.

For entry-level sales jobs, retailers rely on educational institutions, adds, walk-ins (or write-ins), Web sites, and employee recommendations. For middle-management positions, retailers rely on employment agencies, competitors, ads, and current employee referrals. The retailer's typical goal is to generate a list of potential employees, which is reduced during selection. However, retailers that only accept applications from those who meet minimum background standards can save a lot of time and money.

Table 8.1: Recruitment Sources and Their Characteristics

Sources			Characteristics
Outside the Company			
1.	Educational institutions	a.	High schools, business schools, community Colleges, universities, graduate schools.
		b.	Good for training positions; ensure minimum Educational requirements are met; especially Useful when long-term contacts with Instructors are developed.
2.	Other channel members	a.	Employees of wholesalers, manufactures, competitors ad agencies, competitors; leads from each of these.
		b.	Reduce extent of training can evaluate performance with prior firm(s); must instruct in company policy; some negative morale if current employees feel bypassed for promotions.
3.	Advertisements	a.	Newspapers, trade publications, professional journals, Web sites.
		b.	Large quantity of applicants; average applicant quality may not be high; cost-applicant is low; additional responsibility placed on screening; can reduce unacceptable applications by noting job qualifications in ads.
4.	Employment agencies	a.	Private organisations, professional organizations, government executive search firms.
		b.	Must be carefully selected; must be determined who pays fee; good for applicant screening; specialists in personnel.
5.	Unsolicited applicants	a.	Walk-ins, write-ins.
		b.	Wide variance in quality; must be carefully screened; file should be kept for future positions.
Within the Company			
1.	Current and former employees	a.	Promotion or transfer of full-time, part-time employees; rehiring of laid-off employees.
		b.	Knowledge of company policies and personnel; good for morale; honest appraisal from in-house supervisor.
2.	Employee Recommendations	a.	Friends, acquaintances, relatives.
		b.	Value of recommendation depend on honesty and judgement of current employees.

Notes

Selection: So far as the staff requirement that is usually required for the running of a store operations can be given as under:

Each of the following positions have had a complete job analysis to determine the core behavioural competencies, work ethic and job tasks necessary for success. The scales have been validated to predict success. Here is a list of the position assessments that are required for the store operations:

- Receptionist
- ***Administrative Support:*** for administrative assistants, secretaries, office support personnel and temporaries.
- ***Customer Service:*** for customer service representatives, order clerks, client services representatives.
- ***Hospitality Staff for Restaurants and Hotels:*** for front desk personnel, wait staff.
- ***Production and Distribution:*** for manufacturing and assembly team members, operators, drivers and warehouse personnel.
- ***Retail Clerks/Cashiers:*** for people who enjoy in a retail store where active selling is not required. A measurement of basic math can be added.
- ***Retail Sales Associates:*** for retail positions where active selling required and customer loyalty is desired. A measurement of Retail Math can be added.
- ***Retail Store Managers:*** identifies managers who will succeed in small retail stores or department managers in large format stores. A Retail Math module can be added.
- ***Health Care:*** identifies people who can work directly with or around patients displaying an empathetic, service oriented attitude while providing superior care in such positions as nurse, nurse's aides, technician, transporting personnel, and office admitting personnel.
- ***Call Centres:*** identifies people who can work effectively with customers to produce results for inbound sales, inbound service and outbound sales roles.
- ***Help Desk Agents:*** for people who will work efficiently to solve technical support problems, exceed customer expectations and work collaboratively with others to resolve help desk issues.
- ***Leasing Agents:*** identifies people who will have a positive service attitude and influence prospects to rent or lease units in their complexes.
- ***Convenience Store Management:*** for people who will manage a small team of associates to serve and sell to customers in convenience stores and gas stations.

The selection procedure usually adopted by the retail store operators remains such that it examines the Human Resource (HR) policies adopted by successful retail stores in the country concerned. But sometimes it is found that two retail stores employ different HR policies in terms of recruitment and selection, remuneration and welfare, and training and development for different groups of employees within the same retail store operations. The implementation of the different HR policies for different groups of employees is attributable, first, to the influence of the parent company's environment – socio-economic conditions, characteristics of the top management, corporate strategy and use of technology in the parent company; and, second, to the different types of employee in the two stores. The male and female expatriates among the Parent-Country Nationals (PCNs), and the professionals with high levels of skill, full-time managers and employees with lower level skills, and part-time employees among the Home-Country Nationals (HCNs).

Notes

Notes ***Retailing Versus E-Tailing:*** E-tailing is a form of retailing utilizing the Internet, the World Wide Web (WWW), and other electronic forms of commerce to take the place of supplement a physical retail location. E-tailing is a specialized form of e-commerce. E-commerce is "the conduct of selling, buying, logistics, or other organization-management activities via the Web."

Examples of e-tailers, both Service and Products Include eBay.com and Amazon.com.

The overall objectives of e-tailing is to create sales, manage additional retail functions such as buying and logistics, and find and identify new retail markets and opportunities using electronic technologies. Retailers have begun to utilize the web as an integrated marketing communication (IMC) vehicle to provide information to customers about products and services. Retailers can create their own web stores and enter into partnerships, or strategic alliances, to leverage their human and capital resources.

A business may need both e-tailing and retailing to create an effective integrated retail management plan.

One key to successful e-tailing is to achieve high gross margins for products. Simply stated, a gross margin is the revenue remaining from the sales of products after subtracting production costs. The larger the margin, the more money there is to spend on advertising and brand development. Successful e-tailers, such as eBay, have high gross margins.

The main distinction between e-tailing and retailing is the venue used to create effective marketing. The key to successful retailing and e-tailing is the total integration of all the controllable elements of the retail management mix, along with an effective retail plan and strategy.

8.1.3 Training

Training is an important aspect of human resource management in retail. Typically in retail, training needs arise at the following times:

- Inducting new person/staff into the organization,
- Training of sales staff, as they are the persons who are in direct contact with the customers, and
- Training of staff/personnel for skill enhancements.

When new persons join any organization, an induction programme is conducted. The purpose of such an induction program is to familiarise the new entrants about the organization, policies and methods of doing business.

In retail, special importance is given to the training of the sales staff, as they are commonly termed as the face of the organization. Training of the sales staff usually involves the following:

1. ***Communication Skills:*** This is necessary to enable the staff to understand the basics of effective communication. They also need to understand the barriers to communication and how to overcome to them. Body language, its importance and interpretation in various sales situations, also needs to be understood by the staff to enable them to communicate effectively with the customer.

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2. ***Product knowledge:*** Product knowledge is very important to a retail sales person. He needs to know the features, prices, qualities and benefits of the product that they are selling. Details of any after sales service offered must also be known. It is advisable to possess knowledge of the current market trends and the offerings of the competitors. Product knowledge, many a times, becomes the key factor affecting the consumer's decision to make a purchase.
3. ***Company policies on returns:*** The sales person also needs to be aware of the policies on return and exchanges. This enables the staff to know the manner in which they need to deal with the customers on these issues.
4. ***Knowledge of workplace:*** The staff needs to be aware of the layout of the store and the merchandise available in various sections. Within the department/section that the employee has to operate in, he needs to know and understand the manner in which merchandise has been presented and stocked.
5. ***Market awareness:*** This includes awareness of the trends and fashions in the sector to which the retailer operates. Knowledge of the stores in the same market and the special features of the competing stores also needs to known. This knowledge helps in understanding what the customers may be interested in.
6. ***Personal grooming:*** The sales person is the face of the organization to the world. An untidy looking sales person is more likely to alienate customers. Personal grooming at the retail staff level requires the staff to understand the discipline of the retail shop, the uniform, shoes, appearance and personal hygiene that is required.

8.1.4 Motivation

Success in retail environment largely depends on the workforce. Given the kind of work hours and the pressures on performance, the retailer needs staff that is completely motivated. This is true for person working within the organization as front end sales staff as well as people working at the back end in the organization.

Did u know? The need to influence people within the organization, to perform the tasks as needed by the organization has always existed. One the oldest methods used to achieve this end was called the carrot and stick method. The name evolved from the stubbornness of donkeys that could only be moved by taunting them with a carrot. Managements often use economic "carrots" to entice people to work harder.

Over the years, this technique has become a part of our system has created the misconception that money is always the factor that motivates.

Customer Psychology: Research on human behaviour has allowed psychologists to explain motivation and develop models which help us in understanding how to get the most out of people. The key factors that help in motivating people are:

- The organization culture
- The rewards and recognitions
- The monetary benefits
- Prospects for growth and job enrichment

Notes

Self Assessment

Fill in the blanks:

1. World over, retail as an industry, employs a significant ..... number of people.
2. In any retail organisation, the people who deal with the customers at a ..... level, are considered as face of the organisation.
3. For ..... sales jobs, retailers rely on educational institutions, adds, walk-ins (or write-ins), Web sites, and employee recommendations.

8.2 Human Resource Environment of Retailing

Retailers face a human resource environment characterized by a large number of inexperienced workers, long hours, highly visible employees, a diverse workforce, many part-time workers, and variable customer demand. These factors complicate employee hiring, staffing, and supervision.

The need for a large retail labour force often means hiring persons with little or no prior experience. Sometimes, a position in retailing represents the first: "real job". People are attracted towards retailing because they find jobs near to home; and retail positions (such as cashiers, stock clerks and some types of sales personnel) may require limited education, training and skill. Also, the low wages paid for some positions results in hiring of inexperienced people. Thus, high employee turnover and cases of poor performance, lateness, and absenteeism may result.

The long working hours in retailing, which may include weekends, turn off certain prospective employees; and many retailers now have longer hours since more shoppers want to shop during evenings and weekends. Accordingly, some retailers require at least two shifts of full time employees.

Retaining employees are highly visible to customers. Therefore, when personnel are selected and trained special care must be taken with regard to their manner and appearance. Some small retailers do not place enough emphasis on employee appearance (neat grooming and appropriate attire).

It is common for retailers to have a diverse labour force, with regards to age, work experience, gender, race, and other factors. This means that firms must train and supervise their workers so that they interact well with one another and are sensitive to the perspectives and needs of one another.

Consider the employees mission of Albertson's:

We value the unique qualities that each associate brings to workplace. It is our goal to attract and retain the best associates in our industry and to provide a courteous and respectful environment where diversity is honoured, celebrated, and cherished.

Due to their long hours, retailers regularly hire part – time workers. In many supermarkets, over half the workers are part time and problems can arise. Some part-time employees lack acumen, and are late, absent, or likely to quit than full-time employees. They must be closely monitored.

Variations in customer demand by day, time period, or season may cause difficulties. Most shoppers make major supermarket trips on Thursday, Friday, or Saturday. So how many employees should be there on Sunday through Wednesday, and how many on Thursday through

Saturday? Demand differences by day part (morning, afternoon, evening) and by season (fall, holidays) also affect planning. When stores are especially busy, even administrative and clerical employees may be needed on the sales floor.

As a rule, retailers should consider these points:

- Recruitment and selection procedures must efficiently generate sufficient applicants.
- Some training must be short because workers are inexperienced and temporary.
- Compensation must be perceived as "fair" by employees.
- Advance opportunities must be available to employees who view retailing as a career.
- Employee appearance and work habits must be explained and reviewed.
- Diverse workers must be taught to work together well and amicably.
- Morale problems may result from high turnover and the many part-time workers.
- Full-and part-time workers may conflict, especially if some full timers are replaced.

Various retail career opportunities are available to women and minorities and less of a "glass ceiling" exists than in many other industries. There is still some room for improvement.

Minorities in Retailing: These are some of the issues for retailers to address with regard to minority workers:

- Clear policy statements from top management as to the value of employee diversity.
- Active recruitment programs to stimulate minority applications.
- Meaningful training programs.
- Advancement opportunities.
- Zero tolerance for insensitive workplace behaviour.

An expert in the field of personnel management, studied and concluded that mis-hire data supplied by 54 companies. He concluded that the cost of mis-hires is around 25 times the base compensation for those under $100,000 and 40 times for those earning $100,000 to $250,000. His calculations started from the premise that compensation paid to an employee is an investment. Employer pays out money with the hope of getting a return on investment. When the hire fails to deliver results (i.e., a contribution to profit), we lose not only our direct investment (salary, benefits, taxes) and the profits that should have been earned but also suffer significant productivity loss throughout the organization due to the related disruption.

Astronomical Costs of MIS-Hires: The costs to the business are substantial, from direct replacement costs of 200–250% of annual compensation for executive positions to less quantifiable costs related to business opportunity loss and poor morale. Experts suggest that the true cost of a mis-hire can be as much as 15 times annual compensation of the mis-placed candidate.

Developed to accelerate the adjustment of new leaders in significant new roles, the process combines the benefits of executive coaching with assessment, structured feedback and facilitated meetings with key stakeholders. The process helps focus the new leader's attention on the key areas that need to be mastered and managed effectively in order to integrate successfully tangible business results.

Company Killers and De-railers: On boarding is an essential component to a successful search process. Based on work with clients, several common challenges have been identified that cause executives to derail at new companies or in new roles in their existing organizations. These common de-railers include:

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- ***Jumping the Gun:*** New leaders often charge in too fast, and assume everything is "broken" instead of identifying small, quick wins to build positive momentum.
- ***Leader Arrogance:*** Some newly placed leaders don't take the time to understand their new organization, and pay respect to its history and successes.
- ***Building Relationships:*** Many new executives do not invest proactively in building relationships with key stakeholders at every level.
- ***Leadership Style:*** New leaders may not adapt their leadership style to fit their new team and organizational culture.
- ***Clarity of Expectations:*** New leaders often misread and misjudge the dynamics, expectations and requirements of their new organization and role.
- ***Cultural Misalignment:*** Many new leaders don't invest the time to learn about the organization's culture, systems and political landscape and are unable to make an impact.

8.2.1 How to Avoid MIS-Hires: CIDS (Chronological in Depth Structure) Based Model

Coaching to Build Platform for new Leaders: Accelerate organizational learning and knowledge transfer by focusing the leader on critical, high impact objectives necessary for success.

- Build and leverage relationships and networks with key stakeholders in order to gain the support necessary to achieve goals
- Receive constructive assessments feedback and coaching on leadership style, strengths and development needs to address potential de-railers and support success in their new role
- Build a six-month roadmap that identifies opportunities to deliver early results, and outlines clear goals and ways to achieve them to increase the leader's ability to make a positive impact on the organization's performance
- A new executive from outside the organization assumes a key leadership position
- An expatriate begins a new leadership assignment
- A technical expert assumes a broader leadership role
- The new leader's department poses immediate challenges
- The executive is filling a newly created position

Strategy Focused coaching has the capacity to improve productivity adaptability and increased competence and efficiency across any organization. This leads to improved bottom line results.

There are several aspects of labour laws for retailers to satisfy. They must not

- Hire underage workers
- Pay workers "off the books"
- Require workers to engage in illegal acts (such as bait-and-switch selling)
- Discriminate in hiring or promoting workers
- Violate worker safety regulations
- Disobey the Americans with disabilities act
- Deal with suppliers that disobey labour laws

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Caution Retailers must also be careful not to violate employees' privacy rights. Only necessary data about workers should be gathered and stored, and such information should not be freely disseminated.

Self Assessment

State whether the following statements are true or false:

4. Retailers face a human resource environment characterized by a large number of inexperienced workers, long hours, highly visible employees, a diverse workforce, many part-time workers, and variable customer demand.
5. The need for a large retail labour force often means hiring persons with little or no prior experience.
6. Retailers must also be careful to violate employees' privacy rights.

Caselet

Training and Development for Cultural Diversity: A Marks and Spencer

Organisations that wish to be successful in the increasingly competitive markets of the 90s must consider how to provide rewarding roles which allow their employees to develop. In the UK, a career with Marks & Spencer is widely regarded as one of the most interesting opportunities for newly qualified university graduates.

There are always two sides to an employment relationship. Marks & Spencer wants the training and development of knowledge, skills and attitudes of its employees to fit corporate goals, while individuals will want their career to develop to meet their own personal expectations and aspirations. Throughout their working lives, an evaluation process takes place in which individuals constantly ask themselves:

- Where am I now?
- Where do I want to be?
- How will I get there?

The Marks & Spencer brand name evokes a strong, positive public image. Image is a combination of an individual's personal experience of a company or product, plus what they have read or heard from other sources such as family or friends. Many applications for graduate positions at Marks & Spencer are based upon what the applicants have heard from other people as well as their own experiences.

Image has helped Marks & Spencer attract high calibre people who reflect the organisation's core values of quality products and service. This is particularly important as creating the right opportunity for employees is about empowerment and trust.

The situation is quite different as Marks & Spencer expands into other countries. Many individuals have not heard of 'Marks & Spencer' and do not associate it with the positive image which has been consolidated by over 100 years of trading in the UK. This case study

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therefore focuses upon a new experience for Marks & Spencer! As the growth of overseas business accelerates, Marks & Spencer faces two key issues:

1. how to recruit high-quality graduates from other countries?
2. having appointed such graduates, how to then cater for the cultural differences in order to provide them with scope for progression which meets their personal requirements?

At the start of the process, other cultures were recognised and strategies were developed, taking into account, as appropriate, the culturally different requirements of both candidates and employees.

Source: http://businesscasestudies.co.uk/marks-and-spencer/training-and-development-for-cultural-diversity

8.3 Retail Store Manager

The position of retail store manager is one that holds vast duties and great responsibilities. There are a wide variety of retail stores which employ retail store managers to maintain the overall quality and day-to-day operations of the establishment. In order to learn more about the duties and responsibilities of a retail store manager, it is important to highlight what in fact these individuals do on a daily basis.

8.3.1 Store Manager's Responsibilities

The retail store manager is an individual who oversees the daily operations of a retail establishment. That individual is responsible for overseeing the daily work of subordinate employees, ensuring that customers have a pleasant shopping experience and completing many other duties necessary to run the store in an effective and efficient manner.

There are many duties this individual is responsible for completing and each duty in and of itself is vital to the smooth operation of the store. The first main duty of a retail store manager is overseeing the hiring, firing and maintaining of personnel. These individuals are ones who make the store a success and it takes a strong manager to ensure that the perfect individuals are hired to fill sales associate positions, clerical positions and other important job titles. In addition to these tasks, the retail store manager must see to it that each individual is adequately trained to fill their job title and supervise the work that they do throughout their employment at the store.

Another important duty and/or responsibility of the retail store manager deals with the money that comes into the store and goes back out as well. The retail store manager is responsible for handling the turning in of cash at the end of each sales associate's day and is required to ensure that all the money is accounted for in the end. In addition, a retail store manager is usually responsible for paying the employees and ensuring that the pay checks match the hours worked by each individual. Meticulous records are needed to be kept by the retail store manager to ensure that all money which has come into the store is accounted for and sales associates and other store employees are paid as they should be.

Inventory is another responsibility of a retail store manager. Since there needs to be goods in stock to sell, it is imperative that the retail store manager check the inventory on a frequent basis and make sure that orders are in when they are supposed to be. In addition to checking retail store stock and ordering goods, the retail store manager also needs to be responsible for paying for the goods which are ordered as well as keeping track of how much is spent on procuring the goods.

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One very important duty of the retail store manager relates to customer service responsibilities. From time to time, shoppers within the retail store will ask to speak with a manager whether to issue a complaint regarding their shopping experience or provide a compliment to an employee or the store itself. The retail store manager is the higher up individual in the retail ranks who provides an ear to customers who wish to express either their pleasure or displeasure regarding an aspect of the store. Therefore, the retail store manager must be extremely well versed in matters of customer service.

The retail store manager is also the pertinent individual at a retail store who confers with the higher up individuals on the corporate level. Since the retail store manager is on the premises on a daily basis, they are the best individuals to let the corporate office know how that particular store is doing. This relates not only to sales but to employer – employee relations as well. This individual is also the one who handles occupational safety and employee relations within the store and relates any issues back to the head office.

Lastly, the retail store manager is the person at a particular retail store who may handle advertising and promotional displays. The retail store manager is one who must make their individual store shine when it comes to presenting various promotions in a favourable and enticing manner. Although they may not be responsible for drafting the advertising materials, they should be knowledgeable in how to display the information so that it has the maximum amount of potential possible.

8.3.2 What Makes the Perfect Retail Store Manager?

There are a few things which the perfect retail store manager will embody. One positive trait which makes a wonderful retail store manager is an individual who has exceptional conversational skills. Since a main component of a retail store manager's daily duties is to interact with customers and employees, it is very important that they know how to converse in such a manner which is courteous yet effective. Looking for individuals with this trait will help interviewers to find the best type of retail store manager.

Past experience is another important aspect which all retail store managers should have. Although past employment may not be the only contributing factor to obtaining the best possible candidate for the job, it still is a highly desirable one. Choosing a retail store manager who has some past managerial experience will equate with less training that is needed and perhaps a more established and useful manager overall.

Another trait to look for in a potential retail store manager is professionalism. A professional store manager not only will benefit the customers who enter the store on a daily basis but will be a good morale booster for other employees as well. A professional retail store manager does not have to be stuffy yet must know when it is the right time for serious behaviour and when he/she can take a lighter attitude with both the customers and employees.

A great retail store manager should also have excellent mathematical skills which may benefit the store the most. Since efficient math skills are an important thing for retail store managers to have since they will be working with money on a daily basis, it is good to have this particular quality.

To sum up, these are just some of the many duties and responsibilities which retail store managers must undertake on a daily basis. By understanding these roles one may be better able to tell if the position of retail store manager is right for them.

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Box 8.1: A Sample Profile Sheet of a Store Manager in Retail Industry

Position Objective and Responsibilities

Job Title: Store Manager

Reports to: General Manager

Position Objective

To direct, promote, and coordinate the store operations in a manner that will optimize the cooperative's market share and savings, improve the cooperative's efficiency, help achieve the cooperative's mission and goals, and result in outstanding customer service.

Position Responsibilities

The store manager's responsibilities involve supervision, marketing, profitability and sales, reporting, purchasing, resale pricing, inventory, service, maintenance, and other duties as assigned by management.

The store manager will maintain a positive attitude that promotes team work within the cooperative and a favourable image of the cooperative.

Supervision

Supervision involves establishing and communicating store goals and results to employees, staffing the store and delegating the workload, actively supporting employee growth, and upholding cooperative policies.

Establish and Communicate Store Goals and Results to Employees

1. Establish store goals with assistance from the general manager
2. Conduct store planning and updating meeting within ……. weeks of fiscal year end
3. Conduct store planning and reporting session within ……. days upon receiving the monthly management report

Staff Store and Delegate Work Load to Meet Market Requirements

1. Establish and update job descriptions for all positions within the store
2. Recommend selection of employees based on job requirements
3. Staff and adjust work force to fit seasonal needs with a minimum of unproductive labour costs
4. Employ seasonal work-sharing arrangements to minimize layoffs and unemployment compensation costs

Actively Support Employee Growth

1. Schedule and supervise orientation for new store employees
2. Update employees regularly on new product knowledge
3. Identify in writing annually training needed for individual employees
4. Discuss performance …….. with each store employee
5. Complete and administer a yearly merit review with each store employee following management approval

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6. Stimulate and develop positive morale and team spirit that leads to high productivity
7. Actively work to increase personal skills and knowledge

Uphold Cooperative Policies

1. Uphold all cooperative policies
2. Ensure that store facilities and equipment meet all federal, state, and OSHA regulations
3. Inform all customers of safe product handling
4. Develop and update a regular maintenance schedule for all store facilities and equipment

Marketing

Marketing involves developing and implementing an annual marketing plan, directing store marketing activities, and developing an annual sales and promotion program.

Develop and Implement an Annual Marketing Plan

1. Submit store's marketing plan to the general manager by …….
2. Review the following marketing activities with the general manager by the ……. of each month:
   (i) Sales call recap
   (ii) Market share report
   (iii) Sales analysis report
   (iv) Strategy review report
   (v) Competitive pricing analysis report
   (vi) Sales promotional efforts
   (vii) Plans for the following month

Direct Store Marketing Activities

1. Review store sales goals with store employees each month
2. Review the following marketing activities with store employees each month:
   (i) Sales call reports
   (ii) Market share report
   (iii) Sales analysis report
   (iv) Strategy review report
   (v) Competitive pricing analysis report
   (vi) Sales promotional efforts
   (vii) Plans for the following month

Develop an Annual Sales and Promotion Program

1. Establish an advertising expense budget at the beginning of each year; review with and get manager's approval
2. Hold one major open house sale each year and at least one minor sale each year

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Profitability and Sales

Profitability and sales involves establishing and achieving store profitability and sales goals, and increasing the store's market share through regular sales efforts.

Establish and Achieve Store Profitability and Sales Goals.

Establish and achieve the profitability and sales goals identified in the annual budget.

Increase Market Share through Regular Sales Efforts.

1. Review sales reports monthly with store employees
2. Review daily reports with salespeople weekly and forward the reports to your supervisor
3. Submit sales call recap monthly to management
4. Ensure store staff members have current tools to make successful sales presentations

Reporting

Reporting involves submitting all required operational reports to management within the time limits stated below:

1. Submit daily invoices and sales recaps to management daily with no errors or discrepancies
2. Turn in all product receipts and supporting materials to management daily
3. Submit monthly reports to management by the …….. of each month. Monthly reports should include the following:
   (i) Inventory recap
   (ii) Sales promotion recap
   (iii) Competitive retail market report: semi-annual
   (iv) Employee performance recap
   (v) Facility and equipment maintenance recap
   (vi) Review outstanding customer reports including credit, complaints, and requests

Purchasing

Purchasing involves purchasing products for resale.

1. Purchase products of quality that will result in a minimum of customer complaints
2. Ensure the cost of products will allow for competitive pricing while still meeting the cooperative's financial objectives
3. Make purchases from outside the cooperative system only if they provide a substantial financial advantage

Resale Pricing

Resale pricing involves establishing prices of products and services.

1. Set prices that are competitive with industry guidelines and local competitors.
2. Set prices that allow the cooperative to meet sales and financial objectives.

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Inventory

Inventory involves managing inventory levels.

1. Develop and maintain a system for monitoring and controlling inventory levels that results in minimal shrinkage
2. Supervise checking of all in-shipments for accuracy against the delivery ticket, proper quantity, price as ordered, and quality
3. Strive to get …….. turns on commodities
4. Clear out obsolete inventories annually
5. Maintain a fiscal year-end inventory not to exceed ……..% of sales
6. Resolve discrepancies in daily inventory report forms within ……. hours
7. Maintain inventories at levels to assure service with a minimum of delivery delays, yet maintain inventory turn goals

Service

Service involves providing and promoting the service necessary to meet the store's goals.

1. Ensure all items sold through the store are delivered and installed within …….. weeks of sale or receipt
2. Enforce regulations to ensure an even flow to accounts
3. Introduce new products and programs
4. Suggest and detail benefits and features of related products
5. Handle claims and complaints promptly
6. Supervise quality control to assure maintenance of product specifications
7. Ensure no customer has improperly installed or inefficiently maintained equipment
8. Ensure all services provided assist in achieving store profitability
9. Make arrangements ahead of time for coverage of duties in case of a planned absence, such as vacation, or an unplanned absence, such as illness
10. Lose no customers due to services provided by the store

Maintenance

Maintenance involves maintaining property, facilities, and equipment.

1. Ensure property, facilities, and equipment remain in good repair and appearance
2. Make recommendations on replacement, additions, or deletions of facilities and equipment when needed and/or economically justified
3. Maintain a clean and orderly store
4. Arrange seasonal displays
5. Lose no customer due to unsatisfactory equipment performance

Other Duties

The store manager will perform other duties as assigned by management and will enforce and uphold the cooperative's credit policy.

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Perform other Duties as Assigned by Management

1. Perform duties as requested by management

Enforce and Uphold the Cooperative's Credit Policy

1. Make credit terms known to all employees and customers
2. Do not charge to customers on COD
3. Do not extend credit to customers who have not been approved by the credit manager
4. Do not authorize customer charges that exceed set credit limits
5. Keep all personal accounts current

Self Assessment

Fill in the blanks:

7. The position of retail store ..... is one that holds vast duties and great responsibilities.
8. The retail store manager is an individual who oversees the daily operations of a retail .....
9. ..... experience is another important aspect which all retail store managers should have.

8.4 Staffing Your Retail Store

Hire and train new employees, schedule salespersons and be the boss of your retail staff. Following are the essential prerequisites.

When and Who should you Hire? As your business begins to grow and evolve, you'll be challenged by the decision to expand. If you are doing all of the work yourself, your first thought may be to hire employees. Before you begin the hiring process, take a moment to determine whether or not you really need the help.

Time Management: Are you doing everything you can to make your time as productive as possible in your store? Becoming better organized may eliminate the need for outside help. Many retail owners try to wear all the hats and then feel they need to hire help. You can reduce some of the workload by outsourcing any part of your business that would be better served by a professional. Book-keeping, marketing and information technology are areas that may be outsourced.

Don't expect to have a lot of free time on your hands right away if you hire a new employee. Your new management role will involve a lot of time in the hiring process, the training of the new worker and the additional payroll paperwork. These new responsibilities will require you to have the organizational aspects under control.

Task Move to a big retail store and analyze their staffing policy.

Hiring is Expensive: Can you afford an employee? Hiring an employee is an investment but for each new hire your retail business makes, valuable resources like time, energy and money are dedicated to the effort. Examine your operating budget. Is there room to pay an extra worker? Keep in mind that you'll need to pay at least the minimum hourly wage and you'll also have payroll taxes and workers compensation to pay.

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An extra employee may generate enough new sales to more than compensate the salary of the employee. The additional help could give you a chance to produce more products or serve more customers efficiently. If the added business does not outweigh the minimum salary that you would have to pay, then consider other alternatives to hiring a permanent employee. There are many staffing options available and each has some pros and cons.

8.4.1 Staffing Options

Full-time Employees: A person who works a set number of hours and generally receives benefits like health, dental and life insurance along with a standard salary is considered full-time. Having someone around full-time can provide a peace of mind knowing someone is minding the store even when you can't be there. There are also many labour laws which govern the full-time worker.

Part-time Employees: These workers may offer more flexibility in scheduling and cost less than full-time employees, but you may spend extra time in training more people and if they have jobs elsewhere, worker loyalty may be compromised.

Temporary Employees: Staffing agencies usually charge for the convenience of providing full service, as they handle the payroll administration and fringe benefits. However, temporary help may be useful for the short-term projects such as the busy holiday selling season.

Independent Contractors: Contractors usually provide work on a project-by-project basis where specialized training or certain skills are required. Fees for work performed are paid based on results and negotiated in advance. Be sure to have a written contract in place before hiring independent contractors. You should also be aware of the industry guidelines which determine a workers independent contractor status.

Once your business becomes successful, you will obviously need help on a temporary or permanent basis. Good employees can be a business's biggest asset but the legal and accounting concerns that come with hiring can almost make it seem having employees is more trouble than it's worth. Be sure you understand all the responsibilities before recruiting and hiring.

Staffing Incentives for Retailers: In order to provide the "above and beyond" type of customer service a retail store should deliver to be successful, it must begin by creating happy employees. Retailers that develop long-term incentives, perks, and rewards for its staff often see benefits like less employee turn-over and better customer service. A combination of all of these can lead to an increase in sales.

Lab Exercise Go to website http://retail.about.com/od/staffingyourstore/Staffing_Your_Retail_Store.htm and collect information on retail careers.

Motivational speakers, extra staff development and monetary incentives like paid health coverage are typical for corporations, but what about retailers? What perks can a brick and mortar retailer offer employees?

Self Assessment

State whether the following statements are true or false:

10. A person who works a set number of hours and generally receives benefits like health, dental and life insurance along with a standard salary is considered full-time.

Notes

11. An extra employee cannot generate enough new sales to more than compensate the salary of the employee.
12. Retailers that develop long-term incentives, perks, and rewards for its staff often see benefits like less employee turn-over and better customer service.

8.5 Socializing and Performance Management

On a daily basis, retailer managers are confronted with a variety of high-impact decisions that must be made as quickly as possible in response to a variety of problems including fraud, out-of-stocks, ad misprints, employee scheduling crises, and customer service issues. At the same time, dwindling margins have resulted in the reallocation or reduction of labour. Managers cannot possibly respond to everything, so priorities must be established.

Over the last few decades, a variety of systems and technologies – such as human resource, point of sale and inventory control systems – have become available to help retailers set priorities and make tough decisions. Unfortunately, retailers now rely on multiple systems that often operate on a standalone basis. Information is abundant but resides in disparate silos – making it difficult for employees to access and share as well as for executives to use in decision making.

For example, marketing managers, merchants, and operations managers in a given organization are often making decisions based solely on their individual roles – and the limited information available to them – and may not necessarily be acting collaboratively. In the worst cases, one manager may be working from information that conflicts with that presented to another manager, such as a report that has not been updated to reflect the most recent transactions. This can lead to individual functional areas of the company acting independently of one another, and possibly even in direct conflict with each other.

What still remains elusive in the retail industry today is the ability to integrate – both technically and functionally. By integrating their technologies and processes, retailers can optimize their most valuable resources – the time and efforts of their employees across all functional business areas. A major step in this direction is for retailers to provide the right people with the right information – structured in such a way that they can easily see when there is a need to take action. An integrated performance management system can help accomplish this.

Simply put, a performance management system is the process of using information to achieve superior corporate performance. For retailers it means having the information to monitor corporate and store performance, quickly take action, and improve operational efficiency.

There are a variety of other terms in use today – such as Enterprise Performance Management (EPM), Corporate Performance Management (CPM), Business Performance Management (BPM), Strategic Performance Management (SPM), Business Performance Calibration (BPC), and Business Performance Intelligence (BPI) – that all basically refer to this same process.

A Key Performance Indicator (KPI) is critical to any performance management system. A KPI is the measure of performance of an activity that is critical to the success of an organization. KPI's will differ depending on the nature and objective of an organization, so you must carefully select which ones to use.

Unfortunately, some organizations may identify hundreds of KPI's, making the key description essentially false. Another problem is when retailers fail to implement consistent KPI's among various functions. For example, a retailer may have sales volume as a key indicator for operations, while one of its key merchants is focused on gross margin percent. This leads to conflict, as the operations team may want to reduce price as one method of driving sales volume, but this price reduction will by definition reduce the gross margin percent of the sale. It is also critical that the KPI's for each functional business area support the achievement of the overall corporate objectives.

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8.5.1 Fully Integrated Performance System

Following are the key characteristics of Fully Integrated Performance System:

Role-based Access to the Right Information: Role-based access to information is the ability to customize the information employees are able to see based on their functional role in the organization. For example, the sales associates on the floor in a store may be able to view their own sales results versus objective, whereas the store manager has the ability to access the sales performance for all sales associates in the store.

In most retail operations today, the managers across various functional areas and within various levels of the operation have a limited view of the information actually available within the organization. This often makes it difficult for them to access critical information that might help them improve their job performance. For example, it is common – in many retail organizations today – for store managers not to have access to real-time sales information.

IBM conducted six retailer-specific workshops to gain an understanding of the business capabilities a store management team would want from new technology. The store management teams in different organizations consistently identified "access to information" as the number one challenge inhibiting stores from carrying out their objectives of maximizing sales and controlling variable expenses. With an integrated performance management system, retailers have increased role-based access to consistent information across functional business areas, so that employees – including store managers – have the information they need to perform their job effectively.

Ability to Link Metrics and Objectives through the Depth and Breadth of an Organization: Cross-organizational integration is the toughest and most fundamental requirement of a performance management system. Because managers scattered across departments and within varying levels of an organization may be working from personalized scorecards, dashboards, and reports, it is necessary to have a system in place that can integrate all of this to ensure all departmental and regional objectives are in synch with the overall corporate objectives. By enabling managers to see the breadth and totality of company operations, and by allowing the linkage of top-level business metrics down through to the employees in the stores, and to site-specific operations, an integrated performance management system can help retailers accomplish this monumental task.

Example: By choosing "receivables less than 30 days" as a KPI for an accounts receivable clerk, a retail manager is ensuring the clerk's objectives fit with the corporate objective of increasing profitability. By selecting "mis-picks" in store distribution routines as a KPI for a distribution associate, the manager is ensuring the distribution clerk is working towards the corporate goals of maximizing efficiency and increasing customer satisfaction, both of which also serve to maximize profitability.

Timely, Actionable Metrics: Performance management does not equate to a post mortem of the previous month's performance. The metrics must be delivered in a timely fashion, and in a way that makes it simple for managers to act upon them in near real time. Giving a store manager overtime reporting after the close of the period does not allow him/her to make changes to improve operational performance in that period, although staffing and scheduling processes may be revisited to improve performance in subsequent periods. Overtime reporting that is timely and actionable, such as reporting weekly, or a report showing associates with over 30 hours midweek, could allow the same manager to shift the current week schedule and avoid overtime expense. Ensuring timeliness of information is the critical difference between performance management and performance reporting. Finally, in addition to having access to timely information, employees must also be provided with the processes for taking action, initiated by the performance management and supporting systems.

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Meaningful Information: As margins narrow and budgets tighten, retailers are continually being pressured to do more with less. A relatively small number of people must manage valuable resources. This means there is limited time available for managers to analyze information, relevant or not. And this is where a well-executed performance management system can offer a competitive edge. While many retail managers are overwhelmed by vast amounts of data that must be analyzed before they can take action, a performance management system presents its users with only those metrics that truly impact the business. There may be 50 performance metrics that could be managed at a store, but 10 drive 80% of the store profitability. This holds true for most retail functions. If telephone expenses are less than 1% of store expenses, they should not be reported as a KPI for the stores. Surprisingly, reports like this are often found and prove distracting to managers, keeping them from focusing on more important factors. In marketing, if only a small percentage of cost is driven by postage, and there is little action that can be taken to impact postage once a catalogue delivery decision is made, then postage should not be a marketing KPI.

Performance management systems also address a retail manager's limited time for reviewing and analyzing data by capturing and summarizing critical information in reports which are graphically presented in the form of dashboards, scorecards, graphs and charts. At a glance, managers can assess a situation and take action. A store manager wishing to compare holiday season sales results for the current year over previous years might have to manually pull information from different reports and databases to make the comparisons. But with an integrated performance management system, the manager could quickly see from a bar chart that sales are abnormally low and consider promotional strategies to boost sales for the current year.

Time spent reviewing and analyzing data can also be reduced by reporting or alerting users to exceptions, instead of making them review a report to find the exceptions. This is a benefit many performance management system vendors stress with traffic lighting or ranking features. These features have now been taken a step further, and performance management systems today can proactively alert users of issues, preventing them from even having to log in to the system – unless there is a discrepancy that requires action.

In the overtime situation described above, if the store manager knows an alert will be generated and sent to his handheld when there is any deviation from the plan – in this case if associates have worked over 30 hours for the period – he/she need not bother to log in to check on overtime.

Ability to Research Online: While it is true that information should be limited to what's important and presented on an exception basis, background information should be readily available to managers whenever they need to delve deeper into a particular situation. If an HR department finds – through an exception on one of its KPI's – that organizational turnover has increased dramatically, it needs to be able to drill down into the associated data to determine which regions or departments have caused the increase. It may also need to review which associates were terminated from which departments, as well as the causes for termination in order to better assess the situation and take action. In many cases, performance management tools will stop at the exception point forcing the user to spend time accessing other systems to identify root causes of issues. Ideally, the supporting detail should be available through an integrated performance management system, for viewing at the user's discretion.

Ability to Benchmark: Whether merchants are comparing product profitability by channel, or district managers are comparing store performance, or executives are evaluating profitability of similar business units, functional managers need to be able to view performance comparatively. This enables various parts of an organization to share best practices. A district manager may wish to compare the labour cost-versus-planned exception report for the individual departments within a given store, but with an integrated system can also now determine which store in the

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district, is the most productive. Upon further investigation, the manager may be able to pinpoint certain operational practices, such as accurate forecasting and workload balancing that have helped this store keep labour costs to a minimum. The manager may then choose to implement these practices throughout the other stores in his district, significantly reducing overall labour costs.

The ability to compare across stores, departments or product lines also allows managers to better profile or segment their customers. This in turn allows them to anticipate and meet customer needs more efficiently. By comparing sales of, for example, Hispanic foods in a region, a manager can get a better understanding of which stores should try expanding their product offerings in this category and which stores should consider cutting these product offerings altogether. By making similar comparisons of gourmet foods sales, specialty foods, or even specific cuts of beef, retail managers can understand who the customers are in specific geographic regions and what they're likely to buy. This type of comparative information can help managers make effective decisions regarding product sourcing and selection, stocking, as well as advertising and promotional decisions.

8.5.2 Requirements for a Successful Performance Management System

A successful performance management system requires several key technological components.

Ability to Integrate Architecturally: The reporting product must be able to integrate with a variety of systems, including relational and multidimensional databases. Although most retailers would like to have a central data warehouse with all relevant transactional data summarized into pertinent metrics, the reality is that most retailers do not. As a result, the technology used for performance management should have the ability to connect to various types of systems and enable integration on the front end. Users will not see the underlying disparate systems. In this way the goal of an all-embracing data warehouse can be achieved over time, and reports can be transitioned from operational systems over to the data warehouse as this evolves. The metrics delivered through the initial reporting system can also act as a guide to the data warehouse designers to help them prioritize areas of development.

Easy Access and Use: The performance management tool must be extremely user friendly and intuitive. For a truly integrated solution, it must be accessible and usable for everyone from the CEO to the department managers in each store, since each and every employee should be working toward the company objectives. While many software vendors like to demonstrate a flashy looking front end with lots of bells and whistles, what is most critical is providing intuitive navigation for the end users to gain insight into the situation and to take action.

Flexibility: The performance management tool must be flexible. The metrics and various perspectives for each user group must be able to be customized. As one move down the chain of command from the VP of Store Operations, to the regional, district, store and departmental managers, each level will have its own set of KPI's it is working towards, as well as access to only that information which is relevant to the responsibilities involved at that level. Each manager will see dashboards or reports relative to the objectives he is assigned such as daily sales, contribution of profit, sales versus plan, by district or region, sales for this year versus last year, this week versus last week. Also, the method for calculating various KPI's – such as the calculation for the cost of a product to determine its contribution to profit – might be different across product categories, and the performance management system must be able to incorporate these differences. For security purposes, the performance management tool must enable unique views based on login identification.

Finally, the interface must be user-developed to prevent the need for IT involvement each time the business needs change.

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8.5.3 Building a Successful Performance Management System

Identify and Document Current Measurements: The first step in creating a successful performance management system is to identify the purpose and metrics of each report and alert. This activity typically requires a task force, or an external consultant (if there are insufficient internal resources) who thoroughly understands the retail industry. Often end users are not forthcoming in presenting all of their current reporting practices, and this might require the consultant to use advanced investigative techniques to get everything out in the open. In either case, each and every report must be documented. This initial catalogue of reports is a good starting point in the necessary process of reviewing as a group, the metrics currently in use today. This helps you determine which ones are relevant and should be included under the new performance management system and which ones are not and should be eliminated.

Identify and Agree upon Corporate Objectives: The next step is to get executive agreement on corporate objectives. There are a number of approaches that can be used for this phase, but the key is to have management buy in on company goals.

Link Functional Metrics to Corporate Objectives: Retailers – often perceived to be independent thinkers and entrepreneurs – find it difficult to link functional metrics to corporate objectives. Field operations personnel may tend to distrust corporate managers, perceiving them to be far-removed from the real world happenings in the stores, and merchants sometimes distrust store operations because their objectives do not match. Retail functional managers must work together in situations where store operations, field operations, corporate, and functional business units overlap, to ensure that KPI's do not conflict.

For example, marketing, merchandising, and operations must all work together to achieve a successful product promotion.

A promotion will most likely fail when:

- Marketing's goal is to increase sales volume
- Merchandising is focused on gross margin and wants to stock only limited quantities of the advertised product because of its low margin
- Operations is trying to save on labour by reducing the time spent on tagging the promotional product, thereby not appropriately signing the promoted merchandise

The KPIs for each group must be in complete alignment with the company's operations. In the above example, the merchant's KPI may be restated to Gross Margin Return on Investment (GMROI) instead of straight margin, making the promotional item more appealing because it will turn faster. The operator's labour budget needs to include promotional readiness time, and the operator needs to somehow be credited for the related sales to encourage participation in the corporate programs.

Scenarios like this are all too common in retail where it is vital that functional areas work together as a whole, but where conflicting objectives prevent them from doing so. A truly integrated performance management system will encourage this behaviour, provide invaluable insight across departments, and reward managers for cooperative efforts.

Revisit Performance Metrics Periodically: Business priorities will shift over time to reflect changing market conditions and customer needs. These shifts will inevitably change the focus of a company, so corporate metrics should be revisited at least annually during strategy discussions. In addition, the constant monitoring of performance results against metrics should identify situations where a local metric is driving behaviour that is counterproductive to the corporation.

Self Assessment

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Fill in the blanks:

13. On a ..... basis, retailer managers are confronted with a variety of high-impact decisions that must be made as quickly as possible in response to a variety of problems.
14. A ..... is the process of using information to achieve superior corporate performance.
15. A ..... is the measure of performance of an activity that is critical to the success of an organization.

Case Study

Tesco – Recruitment and Selection

Introduction

Tesco is the biggest private sector employer in the UK. The company has more than 360,000 employees worldwide. In the UK, Tesco stores range from small local Tesco Express sites to large Tesco Extras and superstores. Around 86% of all sales are from the UK.

Type of store	Customer benefit
Express	Convenience and value. Fresh local food.
Metro	Convenience in town and city centres. Lots of food lines.
Superstore	A wide range of non-food lines, such as DVDs and books.
Extra	A wide range of food and non-food, including seasonal items such as garden furniture.

Tesco also operates in 12 countries outside the UK, including China, Japan and Turkey. The company has recently opened stores in the United States. This international expansion is part of Tesco's strategy to diversify and grow the business.

In its non-UK operations Tesco builds on the strengths it has developed as market leader in the UK supermarket sector. However, it also caters for local needs. In Thailand, for example, customers are used to shopping in 'wet markets' where the produce is not packaged. Tesco uses this approach in its Bangkok store rather than offering pre-packaged goods as it would in UK stores.

Tesco needs people across a wide range of both store-based and non-store jobs:

- In stores, it needs checkout staff, stock handlers, supervisors as well as many specialists, such as pharmacists and bakers.
- Its distribution depots require people skilled in stock management and logistics.
- Head office provides the infrastructure to run Tesco efficiently. Roles here include human resources,

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legal services, property management, marketing, accounting and information technology.

Tesco aims to ensure all roles work together to drive its business objectives. It needs to ensure it has the right number of people in the right jobs at the right time. To do this, it has a structured process for recruitment and selection to attract applicants for both managerial and operational roles.

Workforce Planning

Workforce planning is the process of analysing an organisation's likely future needs for people in terms of numbers, skills and locations. It allows the organisation to plan how those needs can be met through recruitment and training. It is vital for a company like Tesco to plan ahead. Because the company is growing, Tesco needs to recruit on a regular basis for both the food and non-food parts of the business.

Positions become available because:

- jobs are created as the company opens new stores in the UK and expands internationally
- vacancies arise as employees leave the company when they retire or resign or get promotion to other positions within Tesco
- new types of jobs can be created as the company changes its processes and technology

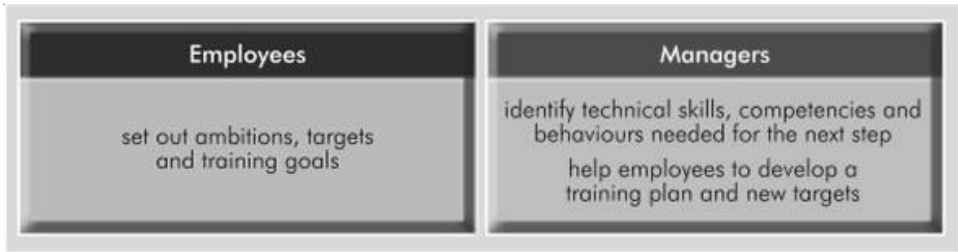
Tesco uses a workforce planning table to establish the likely demand for new staff. This considers both managerial and non-managerial positions.

In 2008/09, for example, Tesco calculates that to support its business growth there will be a demand for around 4,000 new managers.

The Planning Process

This planning process runs each year from the last week in February. There are quarterly reviews in May, August and November, so Tesco can adjust staffing levels and recruit where necessary. This allows Tesco sufficient time and flexibility to meet its demands for staff and allows the company to meet its strategic objectives, for example, to open new stores and maintain customer service standards.

Tesco seeks to fill many vacancies from within the company. It recognises the importance of motivating its staff to progress their careers with the company. Tesco practises what it calls 'talent planning'. This encourages people to work their way through and up the organisation.



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Through an annual appraisal scheme, individuals can apply for 'bigger' jobs. Employees identify roles in which they would like to develop their careers with Tesco. Their manager sets out the technical skills, competencies and behaviours necessary for these roles, what training this will require and how long it will take the person to be ready to do the job. This helps Tesco to achieve its business objectives and employees to achieve their personal and career objectives.

Job Descriptions and Person Specifications

An important element in workforce planning is to have clear job descriptions and person specifications. A job description sets out:

- the title of the job
- to whom the job holder is responsible
- for whom the job holder is responsible
- a simple description of roles and responsibilities

A person specification sets out the skills, characteristics and attributes that a person needs to do a particular job.

Together, job descriptions and person specifications provide the basis for job advertisements. They help job applicants and post-holders to know what is expected of them. At Tesco these documents are combined. As they are sent to anyone applying for jobs, they should:

- contain enough information to attract suitable people
- act as a checking device to make sure that applicants with the right skills are chosen for interview
- set the targets and standards for job performance

Job description	Job	Non-food manager
	Reports to	Store manager
	Area of business	Stores – all non-food areas
	Job purpose	• To drive business improvements and performance in non-food. • To coach and develop the non-food team to give customers the best service.
Person specification	Skills	• Leadership skills, such as influencing others and decision making • Operating skills, such as managing staff and stock management • General skills, such as communication, planning and problem solving

Job descriptions and person specifications show how a job-holder fits into the Tesco business. They help Tesco to recruit the right people. They also provide a benchmark for each job in terms of responsibilities and skills. These help managers to assess if staff is carrying out jobs to the appropriate standards.

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Skills and Behaviours

Tesco's purpose is to serve its customers. Tesco's organisational structure has the customer at the top. Tesco needs people with the right skills at each level of this structure. There are six work levels within the organisation. This gives a clear structure for managing and controlling the organisation.

Each Level requires Particular Skills and Behaviours.

- ***Work level 1:*** Frontline jobs working directly with customers. Various in-store tasks, such as filling shelves with stock. Requires the ability to work accurately and with enthusiasm and to interact well with others.
- ***Work level 2:*** Leading a team of employees who deal directly with customers. Requires the ability to manage resources, to set targets, to manage and motivate others.
- ***Work level 3:*** Running an operating unit. Requires management skills, including planning, target setting and reporting.
- ***Work level 4:*** Supporting operating units and recommending strategic change. Requires good knowledge of the business, the skills to analyse information and to make decisions, and the ability to lead others.
- ***Work level 5:*** Responsible for the performance of Tesco as a whole. Requires the ability to lead and direct others, and to make major decisions.
- ***Work level 6:*** Creating the purpose, values and goals for Tesco plc. Responsibility for Tesco's performance. Requires a good overview of retailing, and the ability to build a vision for the future and lead the whole organisation.

Tesco has a seven-part framework that describes the key skills and behaviours for each job at every level in the company. This helps employees understand whether they have the right knowledge, skills or resources to carry out their roles.

Attracting and Recruiting

Recruitment involves attracting the right standard of applicants to apply for vacancies. Tesco advertises jobs in different ways. The process varies depending on the job available.

Internal Recruitment

Tesco first looks at its internal Talent Plan to fill a vacancy. This is a process that lists current employees looking for a move, either at the same level or on promotion. If there are no suitable people in this Talent Plan or developing on the internal management development programme, Options, Tesco advertises the post internally on its intranet for two weeks.

External Recruitment

For external recruitment, Tesco advertises vacancies via the Tesco website www.tesco-careers.com or through vacancy boards in stores. Applications are made online for managerial positions. The chosen applicants have an interview followed by attendance at an assessment centre for the final stage of the selection process.

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People interested in store-based jobs with Tesco can approach stores with their CV or register though Jobcentre Plus. The store prepares a waiting list of people applying in this way and calls them in as jobs become available.

For harder-to-fill or more specialist jobs, such as bakers and pharmacists, Tesco advertises externally:

- through its website and offline media
- through television ad radio
- by placing advertisements on Google or in magazines such as The Appointment Journal.

Tesco will seek the most cost-effective way of attracting the right applicants. It is expensive to advertise on television and radio, and in some magazines, but sometimes this is necessary to ensure the right type of people get to learn about the vacancies.

Tesco makes it easy for applicants to find out about available jobs and has a simple application process. By accessing the Tesco website, an applicant can find out about local jobs, management posts and head office positions. The website has an online application form for people to submit directly.

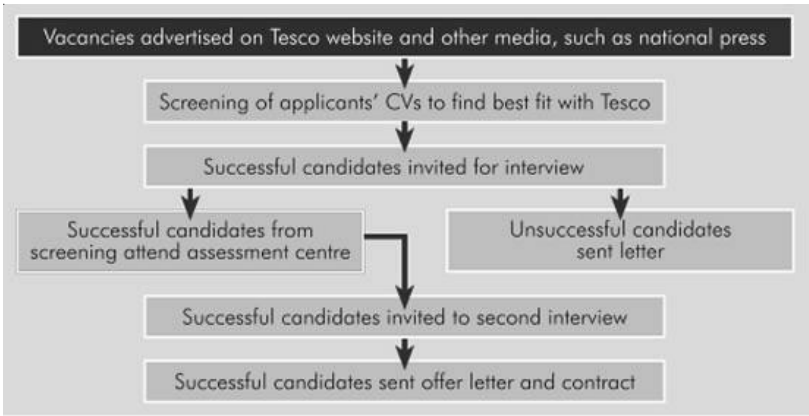
Selection

Selection involves choosing the most suitable people from those that apply for a vacancy, whilst keeping to employment laws and regulations. Screening candidates is a very important part of the selection process. This ensures that those selected for interview have the best fit with the job requirements.

Screening

In the first stages of screening, Tesco selectors will look carefully at each applicant's curriculum vitae (CV). The CV summarises the candidate's education and job history to date. A well-written and positive CV helps Tesco to assess whether an applicant matches the person specification for the job.

The company also provides a 'job type match' tool on its careers web page. People interested in working for Tesco can see where they might fit in before applying.



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The process Tesco uses to select external management candidates has several stages.

Assessment Centres

A candidate who passes screening attends an assessment centre. The assessment centres take place in store and are run by managers. They help to provide consistency in the selection process. Applicants are given various exercises, including team-working activities or problem-solving exercises. These involve examples of problems they might have to deal with at work.

Candidates approved by the internal assessment centres then have an interview. Line managers for the job on offer take part in the interview to make sure that the candidate fits the job requirements.

Conclusion

Workforce planning is vital if a business is to meet its future demands for staff. It allows a business time to train existing staff to take on new responsibilities and to recruit new staff to fill vacancies or to meet skill shortages.

Tesco is a major international company with many job opportunities, including management, graduate, school leaver and apprentice posts. Tesco needs to have people with the right skills and behaviours to support its growth and development.

Tesco has clear organisational structures, detailed job descriptions and person specifications. It provides user-friendly ways of applying for jobs and a consistent approach to recruitment and selection. This means it can manage its changing demand for staff.

Questions:

1. Analyze the case and interpret it.
2. Write down the case fact.
3. What do you conclude from it?

Source: http://businesscasestudies.co.uk/tesco/recruitment-and-selection

8.6 Summary

- For an organization, the human resources function "ensures that the company has the right mix of skilled people to perform its value creation activities effectively", thus creating more value.
- HRM and strategic HRM replace earlier personnel management theories.
- Principal features of the new concepts in HRM include managerial focus, the perception of employees as organizational "recourse" the integration of all HR functions with each other and towards organizational goals and a long-term planning orientation.
- Strategic HRM models will need to be also sufficient flexible to incorporate differential social, culture, economic and legislative conditions, and government policies.
- Retail as an industry, employs a significant high number of people.
- Many organisations create an application blank, which has to be filled in by the applicant and it gives the details of the education, work, hobbies and family background.

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- It helps the organisations obtain information about the applicant in a standard and structured manner.
- Recruitment is the activity where by a retailer generates a list of job applicants. Table indicates the features of several key recruitment sources.
- The selection procedure usually adopted by the retail store operators remains such that it examines the Human Resource (HR) policies adopted by successful retail stores in the country concerned.
- Training is an important aspect of human resource management in retail.
- The need to influence people within the organization, to perform the tasks as needed by the organization has always existed. One the oldest methods used to achieve this end was called the carrot and stick method.

8.7 Keywords

E-commerce: E-commerce is "the conduct of selling, buying, logistics, or other organization-management activities via the Web."

E-tailing: E-tailing is a form of retailing utilizing the Internet, the World Wide Web (WWW), and other electronic forms of commerce to take the place of supplement a physical retail location.

Full-time Employees: A person who works a set number of hours and generally receives benefits like health, dental and life insurance along with a standard salary is considered full-time.

Independent Contractors: Contractors usually provide work on a project-by-project basis where specialized training or certain skills are required.

Marketing: Marketing involves developing and implementing an annual marketing plan, directing store marketing activities, and developing an annual sales and promotion program.

Part-time Employees: These workers may offer more flexibility in scheduling and cost less than full-time employees.

Reporting: Reporting involves submitting all required operational reports to management within the time limits.

Retail store manager: The retail store manager is an individual who oversees the daily operations of a retail establishment.

Supervision: Supervision involves establishing and communicating store goals and results to employees, staffing the store and delegating the workload, actively supporting employee growth, and upholding cooperative policies.

Temporary Employees: Staffing agencies usually charge for the convenience of providing full service, as they handle the payroll administration and fringe benefits.

8.8 Review Questions

1. What is the need of having HR at retail store?
2. Explain the problems faced by the retailers in managing HR.
3. Explain the time top grading, de-railers.
4. Explain the factors avoiding the cost of MIS-hires.
5. Explain the bullet proof approach to avoid retail legal problems.

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6. What do you mean by recruitment? Explain different sources of recruitment.
7. Define different methods of recruitment with their characteristics.
8. Why training is important for retail HR? Explain the need of different types of training.
9. What do you understand by the responsibilities of a store manager?
10. What is the importance of staffing, selection and performance management in retail store operations?

Answers: Self Assessment

1.	high	2.	one-to-one
3.	entry-level	4.	True
5.	True	6.	False
7.	manager	8.	establishment.
9.	Past	10.	True
11.	False	12.	True
13.	daily	14.	performance management system
15.	KPI		

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Unit 9: Store Finance and Controls

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Objectives

After studying this unit, you should be able to:

- Define stock valuating
- Discuss stock verification
- Describe Accounts Receivable

Introduction

In financial markets, stock valuation is the method of calculating theoretical values of companies and their stocks. The main use of these methods is to predict future market prices, or more generally, potential market prices, and thus to profit from price movement – stocks that are judged undervalued (with respect to their theoretical value) are bought, while stocks that are judged overvalued are sold, in the expectation that undervalued stocks will, on the whole, rise in value, while overvalued stocks will, on the whole, fall.

In this unit, we will discuss stock valuating and stock verification. We will also focus on accounts receivable.

9.1 Stock Valuating

In the view of fundamental analysis, stock valuation based on fundamentals aims to give an estimate of their intrinsic value of the stock, based on predictions of the future cash flows and profitability of the business. Fundamental analysis may be replaced or augmented by market criteria – what the market will pay for the stock, without any necessary notion of intrinsic value. These can be combined as "predictions of future cash flows/profits (fundamental)", together with "what will the market pay for these profits?" These can be seen as "supply and demand" sides – what underlies the supply (of stock), and what drives the (market) demand for stock?

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Did u know? In the view of others, such as John Maynard Keynes, stock valuation is not a prediction but a convention, which serves to facilitate investment and ensure that stocks are liquid, despite being underpinned by an illiquid business and its illiquid investments.

9.1.1 Fundamental Citeria (Fair Value)

The most theoretically sound stock valuation method, called income valuation or the discounted cash flow (DCF) method, involves discounting of the profits (dividends, earnings, or cash flows) the stock will bring to the stockholder in the foreseeable future, and a final value on disposal. The discounted rate normally includes a risk premium which is commonly based on the capital asset pricing model.

In July 2010, a Delaware court ruled on appropriate inputs to use in discounted cash flow analysis in a dispute between shareholders and a company over the proper fair value of the stock. In this case the shareholders' model provided value of $139 per share and the company's model provided $89 per share. Contested inputs included the terminal growth rate, the equity risk premium, and beta.

9.1.2 Stock Valuation Methods

Stocks have two types of valuations. One is a value created using some type of cash flow, sales or fundamental earnings analysis. The other value is dictated by how much an investor is willing to pay for a particular share of stock and by how much other investors are willing to sell a stock for (in other words, by supply and demand). Both of these values change over time as investors change the way they analyze stocks and as they become more or less confident in the future of stocks.

The fundamental valuation is the valuation that people use to justify stock prices. The most common example of this type of valuation methodology is P/E ratio, which stands for Price to Earnings Ratio. This form of valuation is based on historic ratios and statistics and aims to assign value to a stock based on measurable attributes. This form of valuation is typically what drives long-term stock prices.

The other way stocks are valued is based on supply and demand. The more people that want to buy the stock, the higher its price will be. And conversely, the more people that want to sell the stock, the lower the price will be. This form of valuation is very hard to understand or predict, and it often drives the short-term stock market trends.

Task The fundamental valuation is the valuation that people use to justify stock prices. What are those prices?

There are many different ways to value stocks. The key is to take each approach into account while formulating an overall opinion of the stock. If the valuation of a company is lower or higher than other similar stocks, then the next step would be to determine the reasons.

Earnings per Share (EPS): EPS is the net income available to common shareholders of the company divided by the number of shares outstanding. They usually have a GAAP EPS number (which means that it is computed using all of mutually agreed upon accounting rules) and a Pro

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Forma EPS figure (which means that they have adjusted the income to exclude any one time items as well as some non-cash items like amortization of goodwill or stock option expenses). The most important thing to look for in the EPS figure is the overall quality of earnings. Make sure the company is not trying to manipulate their EPS numbers to make it look like they are more profitable. Also, look at the growth in EPS over the past several quarters/years to understand how volatile their EPS is, and to see if they are an underachiever or an overachiever. In other words, have they consistently beaten expectations or are they constantly restating and lowering their forecasts?

The EPS number that most analysts use is the pro forma EPS. To compute this number, use the net income that excludes any one-time gains or losses and excludes any non-cash expenses like stock options or amortization of goodwill. Then divide this number by the number of fully diluted shares outstanding. Historical EPS figures and forecasts for the next 1–2 years can be found by visiting free financial sites such as Yahoo Finance (enter the ticker and then click on "estimates").

Through fundamental investment research, one can determine their own EPS forecasts and apply other valuation techniques below.

Price to Earnings (P/E): Now that you have several EPS figures (historical and forecasts), you'll be able to look at the most common valuation technique used by analysts, the price to earnings ratio, or P/E. To compute this figure, take the stock price and divide it by the annual EPS figure. For example, if the stock is trading at $10 and the EPS is $0.50, the P/E is 20 times. To get a good feeling of what P/E multiple a stock trades at, be sure to look at the historical and forward ratios.

Historical P/Es are computed by taking the current price divided by the sum of the EPS for the last four quarters, or for the previous year. You should also look at the historical trends of the P/E by viewing a chart of its historical P/E over the last several years (you can find on most finance sites like Yahoo Finance). Specifically you want to find out what range the P/E has traded in so that you can determine if the current P/E is high or low versus its historical average.

Forward P/Es reflect the future growth of the company into the figure. Forward P/Es are computed by taking the current stock price divided by the sum of the EPS estimates for the next four quarters, or for the EPS estimate for next calendar or fiscal year or two.

P/Es change constantly. If there is a large price change in a stock you are watching, or if the earnings (EPS) estimates change, the ratio is recomputed.

Growth Rate: Valuations rely very heavily on the expected growth rate of a company. One must look at the historical growth rate of both sales and income to get a feeling for the type of future growth expected. However, companies are constantly changing, as well as the economy, so solely using historical growth rates to predict the future is not an acceptable form of valuation. Instead, they are used as guidelines for what future growth could look like if similar circumstances are encountered by the company. Calculating the future growth rate requires personal investment research. This may take form in listening to the company's quarterly conference call or reading a press release or other company article that discusses the company's growth guidance. However, although companies are in the best position to forecast their own growth, they are far from accurate, and unforeseen events could cause rapid changes in the economy and in the company's industry.

And for any valuation technique, it's important to look at a range of forecast values. For example, if the company being valued has been growing earnings between 5 and 10% each year for the last 5 years, but believes that it will grow 15–20% this year, a more conservative growth rate of 10–15% would be appropriate in valuations. Another example would be for a company that has been going through restructuring. They may have been growing earnings at 10–15% over the

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past several quarters / years because of cost cutting, but their sales growth could be only 0–5%. This would signal that their earnings growth will probably slow when the cost cutting has fully taken effect. Therefore, forecasting an earnings growth closer to the 0–5% rate would be more appropriate rather than the 15–20%. Nonetheless, the growth rate method of valuations relies heavily on gut feel to make a forecast. This is why analysts often make inaccurate forecasts, and also why familiarity with a company is essential before making a forecast.

Price Earnings to Growth (PEG) Ratio: This valuation technique has really become popular over the past decade or so. It is better than just looking at a P/E because it takes three factors into account; the price, earnings, and earnings growth rates. To compute the PEG ratio, divide the Forward P/E by the expected earnings growth rate (you can also use historical P/E and historical growth rate to see where it's traded in the past). This will yield a ratio that is usually expressed as a percentage. The theory goes that as the percentage rises over 100% the stock becomes more and more overvalued, and as the PEG ratio falls below 100% the stock becomes more and more undervalued. The theory is based on a belief that P/E ratios should approximate the long-term growth rate of a company's earnings. Whether or not this is true will never be proven and the theory is therefore just a rule of thumb to use in the overall valuation process.

Here's an example of how to use the PEG ratio. Say you are comparing two stocks that you are thinking about buying. Stock A is trading at a forward P/E of 15 and expected to grow at 20%. Stock B is trading at a forward P/E of 30 and expected to grow at 25%. The PEG ratio for Stock A is 75% (15/20) and for Stock B is 120% (30/25). According to the PEG ratio, Stock A is a better purchase because it has a lower PEG ratio, or in other words, you can purchase its future earnings growth for a lower relative price than that of Stock B.

Sum of Perpetuities Method

The PEG ratio is a special case in the Sum of Perpetuities Method (SPM) equation. A generalized version of the Walter model (1956), SPM considers the effects of dividends, earnings growth, as well as the risk profile of a firm on a stock's value. Derived from the compound interest formula using the present value of a perpetuity equation, SPM is an alternative to the Gordon Growth Model. The variables are:

- P is the value of the stock or business
- E is a company's earnings
- G is the company's constant growth rate
- K is the company's risk adjusted discount rate
- D is the company's dividend payment

$$P = (\frac{E * G}{K^2}) + (\frac{D}{K})$$

In a special case where K is equal to 10%, and the company does not pay dividends, SPM reduces to the PEG ratio.

Nerbrand Z. Given that investments are subject to revisions of future expectations the Nerbrand Z utilises uncertainty of consensus estimates to assess how much earnings forecasts can be revised in standard deviation terms before P/E rations return to normalised levels. This calculation is best done with I/B/E/S consensus estimates. The market tends to focus on the 12 month forward P/E level but this ratio is dependent on earnings estimates which are never homogenous. Hence there is a standard deviation of 12 month forward earnings estimates.

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The Nerbrand Z is therefore expressed as

$$Z = \frac{\frac{P}{H[P/E]} - E12}{stdev(E12)}$$

where H [P/E] = normalised P/E, e.g. a 5 year historical average of 12 month forward P/E ratios.

E12 = mean 12 month forward earnings estimates

St. dev.(E12) = standard deviation of 12 month forward earnings estimates.

A negative number indicates that earnings can be downgraded before valuations normalise. As such, a negative number indicate a valuation adjusted earnings buffer. For example, if the 12 month forward means EPS forecast is $10, the price of the equity is $100, the historical average P/E ratio is 15, the standard deviation of EPS forecast is 2 then the Nerbrand Z is -1.67. That is, 12 month forward consensus earnings estimates could be downgraded by 1.67 standard deviation before P/E ratio would go back to 15.

Return on Invested Capital (ROIC): This valuation technique measures how much money the company makes each year per dollar of invested capital. Invested Capital is the amount of money invested in the company by both stockholders and debtors. The ratio is expressed as a percent and you should look for a percent that approximates the level of growth that you expect. In its simplest definition, this ratio measures the investment return that management is able to get for its capital. The higher the number, the better is the return.

To compute the ratio, take the pro forma net income (same one used in the EPS figure mentioned above) and divide it by the invested capital. Invested capital can be estimated by adding together the stockholders equity, the total long and short term debt and accounts payable, and then subtracting accounts receivable and cash (all of these numbers can be found on the company's latest quarterly balance sheet). This ratio is much more useful when you compare it to other companies that you are valuing.

Return on Assets (ROA): Similar to ROIC, ROA, expressed as a percent, measures the company's ability to make money from its assets. To measure the ROA, take the pro forma net income divided by the total assets. However, because of very common irregularities in balance sheets (due to things like Goodwill, write-offs, discontinuations, etc.) this ratio is not always a good indicator of the company's potential. If the ratio is higher or lower than you expected, be sure to look closely at the assets to see what could be over or understating the figure.

Price to Sales (P/S): This figure is useful because it compares the current stock price to the annual sales. In other words, it tells you how much the stock costs per dollar of sales earned. To compute it, take the current stock price divided by the annual sales per share. The annual sales per share should be calculated by taking the net sales for the last four quarters divided by the fully diluted shares outstanding (both of these figures can be found by looking at the press releases or quarterly reports). The price to sales ratio is useful, but it does not take into account any debt the company has. For example, if a company is heavily financed by debt instead of equity, then the sales per share will seem high (the P/S will be lower). All things equal, a lower P/S ratio is better. However, this ratio is best looked at when comparing more than one company.

Market Cap: Market Cap, which is short for Market Capitalization, is the value of all of the company's stock. To measure it, multiply the current stock price by the fully diluted shares outstanding. Remember, the market cap is only the value of the stock. To get a more complete picture, you'll want to look at the Enterprise Value.

Enterprise Value (EV): Enterprise Value is equal to the total value of the company, as it is trading for on the stock market. To compute it, add the market cap (see above) and the total net debt of the company. The total net debt is equal to total long and short term debt plus accounts payable, minus accounts receivable, minus cash. The Enterprise Value is the best approximation of what

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a company is worth at any point in time because it takes into account the actual stock price instead of balance sheet prices. When analysts say that a company is a "billion dollar" company, they are often referring to its total enterprise value. Enterprise Value fluctuates rapidly based on stock price changes.

EV to Sales: This ratio measures the total company value as compared to its annual sales. A high ratio means that the company's value is much more than its sales. To compute it, divide the EV by the net sales for the last four quarters. This ratio is especially useful when valuing companies that do not have earnings, or that are going through unusually rough times. For example, if a company is facing restructuring and it is currently losing money, then the P/E ratio would be irrelevant. However, by applying a EV to Sales ratio, you could compute what that company could trade for when its restructuring is over and its earnings are back to normal.

EBITDA: EBITDA stands for earnings before interest, taxes, depreciation and amortization. It is one of the best measures of a company's cash flow and is used for valuing both public and private companies. To compute EBITDA, use a company's income statement, take the net income and then add back interest, taxes, depreciation, amortization and any other non-cash or one-time charges. This leaves you with a number that approximates how much cash the company is producing. EBITDA is a very popular figure because it can easily be compared across companies, even if all of the companies are not profitable.

EV to EBITDA: This is perhaps one of the best measurements of whether or not a company is cheap or expensive. To compute, divide the EV by EBITDA (see above for calculations). The higher the number, the more expensive the company is. However, remember that more expensive companies are often valued higher because they are growing faster or because they are a higher quality company. With that said, the best way to use EV/EBITDA is to compare it to that of other similar companies.

Self Assessment

Fill in the blanks:

1. Stock ..... is the method of calculating theoretical values of companies and their stocks.
2. Stock valuation based on fundamentals aims to give an estimate of their ..... value of the stock.
3. Stock valuation is not a ..... but a .....
4. The fundamental valuation is the valuation that people use to justify .....
5. The most common example of valuation methodology is P/E ratio, which stands for .....

Caselet

The Valuation of Business Division: The Case of L&T Concrete

On 15 May 2008 Larsen & Turbo Limited (L&T) sold its ready mix concrete (RMC) business, L&T Concrete to Lafarge India for INR 14.8 billion. The sale was affected through a transfer of business along with all assets, liabilities and the employees connected with the RMC Business. The price of RMC business seemed to be quite low considering its position in RMC segment with a market share of 25%, having assets of

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INR 4 billion and revenue of INR 7.65 billion in 2007. Moreover, the industry analysts felt that though RMC constituted only 3% of the total cement business in 2007; its growth opportunity was enormous. Thus, the question remained, whether L&T's management had properly valued its RMC business.

Source: http://www.ibscdc.org/Case_Studies/Finance,%20Accounting%20and%20Control/Finance%20Accounting%20and%20Control/FAC0051IRC.htm

9.2 Stock Verification

Stock verification is a process of physically counting and checking inventory in the unit, against its book balance at least once in a year.

Experience has shown that organizations in the Public Service lose a huge amount of financial resources through stores and procurement related activities. These losses emanated from frauds, inadequate stores and procurement management resulting in over/under procurement and storage, wastage, and obsolesce.

Stock Verification is therefore established to provide a complete and continuous audit of stock records, plant, furniture, equipment, allocate and unallocated stock where applicable.

Notes Stock Verification Unit is directly responsible to the Accounting Officer for a comprehensive verification of all stock items and purchases of the Ministry/Extra-Ministerial Department FR 2018, 2020, reporting on regular basis, its assessment of the effectiveness with which procurement/purchasing and stores function are performed at the Headquarters including all the states where NAPEP offices operate.

9.2.1 Duties of the Stock Verifier

Stock verification duties are divided into two categories, namely: Pre-payment Verification and Post payment Verification: These are undertaking through the Capital and Resource Stores.

Prepayment Verification

The purchasing activities are to be subjected to verification, quantity, quality and price in order to obtain value for money.

- Supplies on local purchase order (LPO) and tender.
- Works and services for repairs and maintenance contract on Job Order or Tender.

Self Assessment

State whether the following statements are true or false:

6. Stock verification is a process of physically counting and checking inventory in the unit, against its book balance at least once in a year.
7. Experience has shown that organizations in the Public Service gain a huge amount of financial resources through stores and procurement related activities.
8. Various losses emanated from frauds, inadequate stores and procurement management resulting in over/under procurement and storage, wastage, and obsolesce.

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9. Stock Verification is established to provide an incomplete and discontinuous audit of stock records, plant, furniture, equipment, allocate and unallocated stock where applicable.

10. The purchasing activities are to be subjected to verification, quantity, quality and price in order to obtain value for money.

Lab Exercise Go to website http://www.enotes.com/homework-help/what-stock-verification-relation-spare-parts-84663 and collect information on Perpetual stock Verification.

9.3 Accounts Receivable

Money owed by customers (individuals or corporations) to another entity in exchange for goods or services that have been delivered or used, but not yet paid for. Receivables usually come in the form of operating lines of credit and are usually due within a relatively short time period, ranging from a few days to a year.

On a public company's balance sheet, accounts receivable is often recorded as an asset because this represents a legal obligation for the customer to remit cash for its short-term debts. Money which is owed to a company by a customer for products and services provided on credit. This is often treated as a current asset on a balance sheet.

Caution A specific sale is generally only treated as an account receivable after the customer is sent an invoice.

If a company has receivables, this means it has made a sale but has yet to collect the money from the purchaser. Most companies operate by allowing some portion of their sales to be on credit. These types of sales are usually made to frequent or special customers who are invoiced periodically, and allow them to avoid the hassle of physically making payments as each transaction occurs. In other words, this is when a customer gives a company an IOU for goods or services already received or rendered.

Accounts receivable are not limited to businesses – individuals have them as well. People get receivables from their employers in the form of a monthly or bi-weekly pay check. They are legally owed this money for services (work) already provided. When a company owes debts to its suppliers or other parties, these are known as accounts payable.

Self Assessment

Fill in the blanks:

11. ..... usually come in the form of operating lines of credit and are usually due within a relatively short time period, ranging from a few days to a year.

12. If a company has receivables, this means it has made a sale but has yet to collect the money from the .....

13. On a public company's balance sheet, accounts receivable is often recorded as an asset because this represents a legal obligation for the customer to remit cash for its ..... debts.

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14. Money which is owed to a company by a customer for products and services provided on credit is often treated as a .....on a balance sheet.

15. A specific sale is generally only treated as an ..... after the customer is sent an invoice.

Case Study

Financial Management in a Retail Setting – Marks & Spencer

Introduction

Marks & Spencer is Europe's most profitable retailer with a global brand and global recognition. Its achievement largely depends on the effective use of people. An organisation may have the latest technology and the best physical resources, but it will never thrive if it does not value its people. Its most valuable asset will always be its people and the work they do. For Marks & Spencer, this means that the people who look after customers, select and merchandise the products and run the operations, must aspire to be the best qualified and equipped in retailing.

Marks & Spencer's leading position in the highly competitive market-place depends on its ability to stay one step ahead of other retailers, both in the products and services on offer and how the business is organised to deliver them. As an organisation which recognises the importance of innovation, Marks & Spencer tries to nurture flexible and imaginative people. The Company needs people who are good at planning and organising, who can set objectives, establish priorities and allocate proper amounts of time to activities.

This case study focuses on the challenging role of the Financial Manager behind the scenes at every Marks & Spencer store. In doing so, it highlights many of the qualities, such as leadership, adaptability and analytical consideration, required by Financial Managers every day in a busy retail environment.

Working for a Retailer

Retailing is 'the practice of selling goods in small quantities to the general public.' It is a business where employees come face-to-face with customers every day. Customers can be very demanding – they enter a store and expect their needs to be met immediately, irrespective of whether the lorries delivering bakery goods are stuck in snow or that a key supplier is having production problems.

Many businesses in different types of environment are able to keep their customers at arm's length. If they need to do some training or catch up on paperwork, it is relatively easy to make time. This is not the case in a Marks & Spencer store. It is just not possible to

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ignore customer demands. This may often mean having to juggle many tasks at once, such as an accident on the sales floor, a customer complaint, a stock problem or a till breakdown.

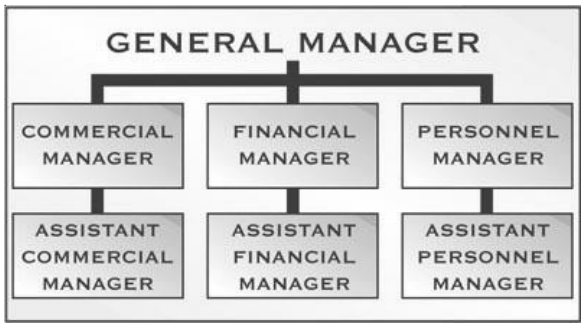
Retailing is renowned for its unpredictability with every day bringing new problems to solve. Good management is all about using managerial experience, instinct and flair to make the best possible decision to overcome the problem. Everything a manager does in retailing is in the public eye. Successes and mistakes are there to see. And, of course, there is also evidence – usually in the form of increased or decreased sales – by which to measure performance.

Some people say that 'retail is detail' - it is about getting small things right, without losing sight of long-term objectives. Making the right decisions ensures that customers come back tomorrow – and the day after. This case study examines the role of the Financial Manager at Marks & Spencer.

Role of the Manager

Management can be defined as 'getting things done with or through other people'. It involves deciding on objectives and making decisions to ensure that objectives are met. It involves planning, organising and coordinating activities. It involves controlling – making sure that things are going to plan and working with people. It is necessary, through effective communication, to make sure that people are committed to activities and the organisation.

The task of running a Marks & Spencer store is so broad-ranging that it has to be divided up into a number of different, closely co-ordinated, areas of responsibility. Dividing up an organisation is often referred to as departmentation. Stores are divided into broad sectors, each of which has its own specialisation or function. Although the functions are separate, each manager works together as part of The Store Management Team.



The Store Management Team includes a Commercial Manager, a Financial Manager and a Personnel Manager, who all report to a General Manager. They have a common goal – to improve the performance of their store by motivating and leading other people in the Store Team. Successful Store Managers come from many backgrounds, but share a willingness to move around the country – and ultimately the world – in search of the best opportunities. Their roles are briefly as follows:

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Commercial Manager (Selling and Merchandising)

- influences what is sold and finds ways of selling it faster
- manages, motivates and inspires others to put their ideas into action
- adds personal flair and imagination to tried and tested methods

Financial Manager (Influencing the Profit)

- influences the profitability of multi-million pound stores
- interprets information on store performance and influences business decisions
- manages financial, computer and security systems – and the people who work with them.

Personnel Manager (Staffing and Training)

- ensures that staff are highly motivated and their talents are used in the most effective way
- balances the commercial needs of the store with the needs of its staff
- implements and manages all aspects of personnel policy from appraisal systems to training

Managing Finance

In order to operate, a business needs resources. Whether these resources are physical resources, such as property, equipment and materials, or less tangible human resources, money is required to pay for their use. As a result, the management of finance is inseparable from the management of the business as a whole.

Controlling costs is a key element in the process of financial management. It involves having a good knowledge of the business and the cost involved and enables managers to:

- evaluate alternative courses of action for business planning
- measure, analyse and control performance against objectives

The Financial Manager

The Financial Manager has the most varied role of all the Store Management Team. In any one month, the Financial Manager could be dealing with issues as diverse as planning for new systems implementation, preparing and interpreting the quarterly profit statement to influence the priorities of the Management Team, or even working with other retailers and the Local Authority to help address current security issues. As a key player in the running of a store, or region of stores, the role of the Financial Manager is to develop ways of making the stores more profitable. The Financial Manager is responsible for providing timely and accurate data to manage each store.

Everything a Financial Manager does will have a direct impact on each store, although it is less immediately visible to the customer. They are actively involved in the day-to-day

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management of the store and need a good appreciation of all aspects of its operation. For example, in the same day, they may be looking at the financial implications of a new delivery schedule, discussing a new store development, thinking about the effects of opening on Sundays, as well as assessing the costs and benefits from the use of security cameras. It is important that the Financial Manager is able to discuss ideas, and using various methods of analysis, to make final recommendations on whether they will improve profitability and should therefore be implemented.

This type of practical, locally-based financial management is for people who are logical, analytical and business-minded. In a commercially-driven environment, they will need to be a financial advisor, systems expert, team-leader and retailer. Attention to detail on a day-to-day basis is important but they must also be a strategic thinker with the ability to plan ahead to shape the commercial direction of the business.

Financial Planning

Everyone budgets to a greater or lesser extent. A budget is a financial plan developed for the future. Budgeting is an important control mechanism for every organisation and helps to predict what the organisation thinks will happen over the next accounting period. Studying budgeting results is a way of monitoring and controlling performance. Comparing expected results to actual results and then finding out why differences have taken place is called variance analysis.

The forecast financial plan or budget for each store is known as the forecast profit and loss account. At the beginning of each year, the Management Team for each store will look back at the previous year's sales and the targets/objectives for the whole organisation to predict their sales for the store for the following year. Anticipating what each store expects to achieve is particularly important as it takes account of local circumstances, such as the activities of competitors in the local shopping environment. For example, the opening of a large new shopping mall will influence the performance of other stores in the region.

The profit and loss account will also take into account controllable costs. These are locally-based costs on which the Management Team of each store can have an impact. They include staffing costs (number of staff to achieve sales targets), costs of refunds, lighting and gas costs, stationery costs, staff uniforms, as well as any other costs related to each store.

Producing a forecast profit and loss account enables each store to make comparisons with the activities of others. This is called benchmarking. It enables each store to assess its performance against the activities of 'best-in-class' similar stores. Making comparisons through the investigation of good practice and store performance is common practice at Marks & Spencer, enabling each store to learn and benefit from the good practice of others.

Marks & Spencer Profit and Loss Template

The forecast profit and loss account is the key element in the business plan for each store. Having established the objectives, it helps each store to know where it is going, how it will get there and the resources it requires. The Financial Manager is responsible for

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discussing various aspects of the plan and its implementation with other members of the Management Team.

The plan will also be reviewed by Financial Management at Head Office. For example, they might question certain figures or identify areas which might not have been considered by the Store Management Team, e.g. knowledge of a new system roll-out. Once the plan has been agreed, the Financial Manager's role is to ensure that the store performs to the targets identified by the plan.

Monitoring and Controlling Performance

While the Commercial Manager is generating enough sales to meet the forecast, and the Personnel Manager is controlling the agreed staffing budget, the Financial Manager will monitor all other costs. Costs are broadly broken down into direct costs and indirect costs. Direct costs are those clearly identified with the sales volume. They include carrier bags, food waste and staffing costs. Indirect costs include stationery, telephone expenses, security and electricity.

Making the store more profitable involves looking not just at the large direct costs but also examining the smaller indirect costs. (Savings in stationery in one store may be small, but across the whole Marks & Spencer Group, it may represent a considerable sum.)

Some costs are easier to control than others. For example, notices near light switches may be a simple way to save electricity by encouraging staff to turn off unnecessary lights. The use of stationery may simply be limited to the amount ordered. Costs such as theft and loss, however, may take up much more time, involving maximising the benefits of close-circuit television, using security guards efficiently to deter crime and deciding how to use store detectives. With around 35 tills in an average store, possibly being using by up to eight to ten staff each day and with large volumes of stock coming in at the back door, it will also involve close scrutiny of all areas of business organisation.

Line Manager

The Financial Manager is also a Line Manager with established responsibilities for decision-making. Every store has an administration office comprising a team of people dealing with expense-related issues. The team may be between 2 to 25 staff (depending on the size of store) and may include a Finance Supervisor reporting directly to either the Financial Manager or Assistant Financial Manager. The team will also be responsible for security staff.

The administration office is responsible for various information systems, such as Food Stock Management, Textile Ordering and Point-of-Sale information from the tills. Although staff across the store uses these systems, reports from the systems will be extracted by the Financial Team for accounting purposes, for example, information from the tills provides

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key sales information which feeds into staffing costs. The Financial Manager will be consulted when problems arise with these systems and will take responsibility for decisions which have to be made. They will be responsible for data protection and computer security.

The team of managers within the store are not there all of the time, particularly when there is late opening. From time-to-time, therefore, the Financial Manager takes responsibility for the whole store, dealing with operational problems wherever they arise within the store, such as a customer problem, a distressed member of staff or a stock issue. The Financial Manager takes joint responsibility for legal requirements within the store, such as temperature issues, pricing issues, hygiene and waste disposal.

Problem Solving

Problem solving is not just about day-to-day issues. It also involves understanding the complex relationship between variables so that the Financial Manager can respond flexibly to locally-based issues and problems as and when they arise. This may include feasibility issues, such as advising about the costs and benefits of working on Sundays, which may require considerable research and planning. The Financial Manager may also advise about general opening times.

Acting as an Auditor

The Financial Manager acts as an internal auditor responsible for many different areas within each store. Every year, the store will be audited by the Company's internal audit team from Head Office. The Financial Manager will therefore develop an audit trail for key issues which show the paperwork and procedures followed in responding to a particular problem to prove the integrity of the Company's procedures.

Conclusion

The Financial Manager has a vital role which impacts directly on the activities of the Commercial and Personnel team. It is a very varied role, involved in every area of operation. Financial Managers are sometimes called the 'conscience of the store'. Their work involves helping to develop better practices and improving the ways in which Marks & Spencer's stores serve their customers.

Questions:

1. Analyze the case and interpret it.
2. Write down the case fact.
3. What do you conclude from it?

Source: http://businesscasestudies.co.uk/marks-and-spencer/financial-management-in-a-retail-setting

Notes

9.4 Summary

- In the view of fundamental analysis, stock valuation based on fundamentals aims to give an estimate of their intrinsic value of the stock, based on predictions of the future cash flows and profitability of the business.
- Fundamental analysis may be replaced or augmented by market criteria – what the market will pay for the stock, without any necessary notion of intrinsic value.
- Stocks have two types of valuations.
  - One is a value created using some type of cash flow, sales or fundamental earnings analysis.
  - The other value is dictated by how much an investor is willing to pay for a particular share of stock and by how much other investors are willing to sell a stock for (in other words, by supply and demand).
- Both of these values change over time as investors change the way they analyze stocks and as they become more or less confident in the future of stocks.
- The fundamental valuation is the valuation that people use to justify stock prices.
- The most common example of this type of valuation methodology is P/E ratio, which stands for Price to Earnings Ratio.
- Stock verification is a process of physically counting and checking inventory in the unit, against its book balance at least once in a year.
- On a public company's balance sheet, accounts receivable is often recorded as an asset because this represents a legal obligation for the customer to remit cash for its short-term debts.

9.5 Keywords

Earnings per Share (EPS): EPS is the net income available to common shareholders of the company divided by the number of shares outstanding.

EBITDA: EBITDA stands for earnings before interest, taxes, depreciation and amortization. It is one of the best measures of a company's cash flow and is used for valuing both public and private companies.

Enterprise Value (EV): Enterprise Value is equal to the total value of the company, as it is trading for on the stock market.

EV to Sales: This ratio measures the total company value as compared to its annual sales.

***Fundamental valuation*:** The fundamental valuation is the valuation that people use to justify stock prices.

Market Cap: Market Cap, which is short for Market Capitalization, is the value of all of the company's stock.

***P/E ratio*:** It stands for Price to Earnings Ratio.

Price Earnings to Growth (PEG) Ratio: This valuation technique has really become popular over the past decade or so.

Notes

Return on Assets (ROA): Similar to ROIC, ROA, expressed as a percent, measures the company's ability to make money from its assets.

Return on Invested Capital (ROIC): This valuation technique measures how much money the company makes each year per dollar of invested capital.

***Stock valuation*:** Stock valuation is the method of calculating theoretical values of companies and their stocks.

***Stock verification*:** Stock verification is a process of physically counting and checking inventory in the unit, against its book balance at least once in a year.

9.6 Review Questions

1. What is Stock valuation?
2. Stock valuation is the method of calculating theoretical values of companies and their stocks. Discuss.
3. What is fundamental valuation of stock?
4. Define the term P/E ratio.
5. What is Earnings per Share (EPS)?
6. What is Price Earnings to Growth (PEG) Ratio?
7. What is Return on Invested Capital (ROIC)?
8. What is Return on Assets (ROA)?
9. What is Market Cap?
10. What is Enterprise Value (EV)?
11. What is EV to Sales?
12. What does EBITDA stands for?
13. 'Stock verification is a process of physically counting and checking inventory in the unit, against its book balance at least once in a year.' Discuss.

Answers: Self Assessment

1.	valuation	2.	intrinsic
3.	prediction, convention	4.	stock prices
5.	Price to Earnings Ratio	6.	True
7.	False	8.	True
9.	False	10.	True
11.	Receivables	12.	Purchaser
13.	short-term	14.	current asset
15.	account receivable		

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Unit 10: Cash Management

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Objectives

After studying this unit, you should be able to:

- Define cash management
- Discuss evolution of cash management
- Describe budgeting
- Explain day to day cash management
- Elaborate on E-Tailing

Introduction

Having a smart safe—and training employees to use it effectively—relieves a lot of the traditional headaches associated with handling cash. "It just takes a lot of the old issues out of the equation with regard to dropping money in safes, and shift managers having access to the safe. Before this technology was available, if a robber came in he could literally hold a gun to a manager's head and threaten his life if he didn't open the safe. With this type of safe even robbers know that they can't do that anymore."

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Making change is a huge part of any store's day-to-day activities. New technology is arriving in convenience stores that allow bulk coin and note dispensing. This system allows a cashier starting his shift to get all of the change he needs with just a couple of keystrokes. The other component of an effective cash management system is giving clerks the ability to drop money immediately, and then retrieve additional funds if they should need it. "The new equipment has just made cash drops easier, better and faster," It aids in creating deposits and those kinds of things.

In this unit, we will discuss cash management and budgeting. We will also focus on day to day cash management and e-tailing.

10.1 Budgeting

Planning Long reliant on a maze of disconnected spreadsheets and manual processes, capital expense planning has historically been a thorn in the sides of organizations large and small—the problems of incorporating multiple areas of expertise and a large degree of inherent risk leading the best-intentioned projects to go wildly off plan. With today's emerging software solutions, however, this doesn't have to be the case. Building on the capabilities of Web-based budgeting and forecasting applications, these solutions combine the specialized functionality required for capital expenditure planning with guided workflow and process support to transform the planning of capital expenditures into an accurate and reliable process.

10.1.1 Challenges of Budgeting for Capital Expenses

"Planning long-term projects is costly, and public sector organizations are often put off by the difficulty of justifying the potentially high cost of aborting a project if it doesn't progress. Thus, planning and preparatory work are key. It's surprising, however, how often organizations hurl themselves into long-term projects and huge investments with the flimsiest of business cases. The focus should be on getting it right the first time."

—Glenn McCauley, Head of Private Finance Initiative Consulting

Deloitte Consulting Budgeting for capital expenses is a tricky business that involves uncertain projections (and therefore a high degree of risk), dependence on a range of expertise, linking long-term projections with financial plans, and stringent record keeping and reporting. The following sections describe these challenges and some of the ways organizations are dealing with them.

Capital budgeting (or investment appraisal): is the planning process used to determine whether a firm's long term investments such as new machinery, replacement machinery, new plants, new products, and research and development projects are worth pursuing.

Coping with Uncertain Projections

Typically encompassing unusual activities that take organizations into uncharted waters, large-scale capital expenditures don't conform to "normal" budgeting routines. Instead, they often require special funding and attract high levels of risk, which in turn necessitate board-level consideration and approval. This is because the issues entailed in designing and constructing major assets, such as new production processes, construction projects, and scientific endeavours, differ markedly from those considered in the acquisition of rebuilt assets. Indeed, capital expenditure projects are distinguished by their significant scale, multiyear time frames, and overall complexity—all factors that make modeling and planning capital expenditure budgets subject to significant uncertainty.

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Caution Planning such expenditures involves weighing expert technical opinion against financial appraisal and risk assessment (especially critical when a project has no precedent).

Given these considerations, it's not surprising that the planning and execution of large-scale projects often go spectacularly wrong from the earliest stages—a sure sign that the capital expense planning process is flawed. Take the 2008 Beijing and 2012 London Olympics: Both projects have been dogged by budget revisions on a massive scale. And they're not alone: Countries around the world can point to public and private sector projects that have exceeded their budgets. Overruns, it seems, go hand in hand with project complexity and scale.

An Expert's View of the Challenge

The Private Finance Initiative (PFI) describes a partnership between the private and public sectors in which the risks and rewards of financing long-term developments are transferred to the private sector. In most cases, this means that the private sector companies are responsible for building assets on behalf of local and central governments via commercially available funding, providing facilities management services, and maintaining the assets over their working lives. Such projects are generally large in scale and can often span 20 to 25 years.

Did u know? According to Glenn McCauley, head of PFI Consulting for Deloitte Consulting, such projects generally involve an element of "crystal ball gazing."

After all, applying decisions over such a long time frame is a process riddled with uncertainty, because it involves choices about not only an asset's development, but also about the services required to maintain that asset over the long term. Says McCauley, "The shape of future services may be difficult to define, and the public sector often finds it difficult to specify what it wants over the long term." Adding to these difficulties is the fact that long-term public sector plans are susceptible to changes in policy. Citing one example, McCauley says, "Many authorities are investing heavily in waste management programs and facilities for treating household waste; however, a change in government policy with regard to something like biodegradable packaging could change the overall demand for individual types of treatment facilities overnight."

What this means is that in the capital expenditure planning phases, all those involved must consider a number of options, and any arrangement that's decided upon must be flexible enough to adapt to change. Says McCauley, "You have to consider the long-term risks and the effect they may have on construction costs as well as the likely changes in services and their effect on costs."

According to McCauley, though, organizational impacts add the biggest risk during the planning phase. "It is the cost inputs suggested by technical advisors and experts," he says, "that create the biggest sensitivities in the project plan. An inefficient financing structure is going to have much less of an impact than flawed assumptions about costs. Evidence shows that for large-scale construction projects, it's the cost of building things that's important. There has to be a robust and transparent process for really scrutinizing the initial costs input."

Promoting Multidisciplinary Engagement

Major capital expenditures—that is, projects with contract values measured in the tens of millions—almost always span a range of functional expertise. With large-scale construction projects, for example, architects, engineers, and scientists can all be expected to have input in the planning and budgeting process, as can marketers and commercial management staff, who will

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bring revenue assumptions of their own. The trick, then, comes in ensuring that each discrete section of the capital expenditure plan is a tightly integrated piece of the whole, so that changes in one area are simultaneously reflected in all other areas. In other words, when one planning assumption changes, all the rest of the assumptions must take into account the consequences of that change. This scenario is further complicated when the capital expenditure plan relies on cost inputs from a number of organizations. In such cases, the plan must not only meld different functional viewpoints, but also deal with the obstacles of organizations operating in different geographies and time zones. According to Ed Kiernan, director of business intelligence at Deloitte Consulting, all these factors make it extremely challenging to plan large-scale capital expenditures using a standard template. Says Kiernan, "Typically, these projects are too complex for the finance department to simply issue standard Excel templates to the business. Instead, the business must do its own local modeling, planning the business as it sees it." But the disconnection between business and finance is very real. Kiernan says, "The chances are that in a very large project a number of finance professionals and bankers will pore over the economic feasibility of the plan, reviewing matters such as interest rates, taxation and accounting policies. But who's looking at the assumptions made by the business? It's these technical and business assumptions that can really scupper the capital expenditure plan."

Linking Long-Term Projections to Financial Plans

Managing the financial consequences of capital expenditure planning is especially challenging—not surprising since estimating the state of a balance sheet, a dozen years out or predicting project cash flows over a decade are exercises with an inherent amount of uncertainty. Planned and unplanned changes go with the territory. Indeed, the lengthy timescales involved introduce considerable fluidity into planning assumptions—and finance professionals often feel cut adrift from the underlying technical assumptions made by experts outside their functional areas.

As one senior finance professional in the defense sector describes it, "The financial aspects of the plan—for example, cost of capital, the depreciation policy, funding timing, exchange rates, and so on—may have a measurable impact on the project's outcome, but these factors pale into insignificance compared to some of the assumptions made around technical and operational feasibility." The discovery of unhelpful geology on a construction project or the impact of persistent bad weather on the delivery of a North Sea oil rig can have far more damaging consequences on financial outcomes than aspects of the plan specifically related to finance.

And the issues don't go away when a project has been completed: They simply transition to ones associated with long-term service contracts. For example, how do you forecast the timing of your maintenance cash flows (both expenditure and revenue) when your service is unique and perhaps not that well defined? What's more, technology changes so quickly that assumptions about service delivery methods (such as aircraft maintenance and network infrastructure) can easily become obsolete before they even come into effect.

Record Keeping and Compliance

Because complex assets tend to be multifaceted, they often require a variety of accounting treatments. Providing the level of detail required to accommodate these various accounting treatments is one of the greatest challenges of capital expenditure planning.

When developing a capital expenditure plan for a complex project, organizations must correctly categorize every major component so that they're treated appropriately in the financial forecasts contained in the capital expenditure plan. For example, each component of an asset (property, plant, or equipment) whose cost is significant in relation to the total cost of the asset must be depreciated separately. For examples of this, think of an aircraft and its engines, or a blast

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furnace and its lining. The appropriate "cost" is the purchase price plus any costs directly attributable to bringing the asset to the location and into the condition necessary to operate it as intended by management. This cost also includes the estimated costs of dismantling and removing the asset and restoring the site on which it is located.

Most of the companies on the Forbes Global 2000 follow either International Financial Reporting Standards (IFRS) or U.S. generally accepted accounting principles (US GAAP), and most standards worldwide are based on one of these standards; therefore, this white paper does not consider accounting treatments beyond these. Although there are differences between US GAAP and IFRS, they affect the basis of measurement rather than the level of detail offered. IFRS allows assets to be valued at their historic cost or on a revaluation (fair value minus accumulated depreciation and impairment losses), whereas US GAAP generally requires the use of historic cost. The other big difference is that IFRS allows major inspection or overhaul costs to be included as part of the cost of an asset, whereas US GAAP expects these costs to be expensed.

When planning for capital expenditures, organizations must also take care to include, where appropriate, any costs directly related to employees (such as site preparation, assembly, and professional fees), which can be capitalized.

To ensure that the correct accounting treatment is applied to all the complex assets that make up significant capital expenditures, both technical expertise (engineering and scientific) and financial expertise are required.

10.1.2 Challenges Presented by Current Practices for Capital Expenditure Budgeting

It is clear that budgeting for capital expenditures is a complicated process involving cross-disciplinary teams and a high degree of inherent uncertainty. Thus, it should come as no surprise that traditional practices fall short when it comes to planning and budgeting for such large-scale, long time frame expenditures. Chief among the challenges organizations face today in trying to plan for capital expenditures is a heavy dependency on manual controls and spreadsheets and poorly developed processes and audit trails. The following sections describe these challenges and some of the ways organizations are dealing with them.

Heavy Reliance on Manual Controls and Spreadsheets

Current capital expenditure planning and forecasting practices rely heavily on spreadsheets. But spreadsheets—though ideally suited to performing complex calculations on behalf of individuals—are no substitute for complete applications.

What's more, spreadsheets can present a serious risk of error: Unnoticed flaws in logic and inadvertently overwritten formulae are just two conditions that can give rise to serious adverse consequences. Thankfully, many mistakes are spotted early or contained within the boundaries of the authoring company. On other occasions, however, problems "escape" into the public domain, leading to serious financial loss or reputation damage. This is particularly true of large-scale capital expenditure projects such as the preparations for the 2012 London Olympics, which failed to properly account for value-added tax, adding unexpected millions to the latest budget estimate.

Poorly Developed Processes and Audit Trails

An even more important limitation of spreadsheets is their limited support for capital expenditure planning and approval cycles. With different aspects of capital expenditure planning carried out in functional "silos" (so that, for example, technical and engineering costs and assumptions are

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performed separately from the financial plan and projected balance sheet), changes in one area are not automatically reflected in the other. The result is a lack of visibility and collaboration that jeopardizes the integrity of the plans and introduces unwelcome delays into the planning process.

Similarly, the lack of process support that characterizes spreadsheet-bound processes makes it difficult to monitor changes and trace them back to individuals.

Self Assessment

Fill in the blanks:

1. Planning long-term projects is .....
2. Public sector organizations are often ..... by the difficulty of justifying the potentially high cost of aborting a project if it doesn't progress.
3. Planning and preparatory work are .....
4. Budgeting for capital expenditures is a complicated process involving ..... teams and a high degree of inherent uncertainty.

10.2 Day to Day Cash Management

The one item in a retail store a business owner can't do without is the cash register. Whether it's the traditional, electronic cash management system or an elaborate computerized point of sale (POS) system, every store needs a machine to process sales.

10.2.1 Cash Registers vs. Point of Sale (POS) Systems

When the doors are open and the lights are on, the cash register becomes more than a safe place to store money. It has the ability to save money, quickly process a customer's transaction and accurately keep records.

One reason for the high initial expense involved with a cash register or point of sale system is that a business can expect to get many years of service from the first machine they buy. The life expectancy of a cash register is between 10–15 years, with upgrades around 5–7 years.

Your Needs

The amount of bells and whistles needed for a cash register will vary by type of business. Some questions to ask before choosing a point of sale system or cash register are:

- What tax must your business collect on a sale?
- How many departments are in your store?
- How many products do you carry now?
- How many in the future?
- How busy will your store be?
- Will you need more than one register?
- Will you accept coupons?
- How will your clerks process refunds?
- What types of payment does your business accept?

Notes

Which is Better? Cash Registers or POS?

For a new business, the choice of cash register or POS system may simply depend on the budget of the retailer. Don't pass the responsibility of selecting the cash register to employees or a consultant. Do your homework. Before selecting a cash register or POS system, understand your business needs, the cash management options and POS hardware available and make your selection based on an educated decision.

Benefits of POS Systems

- More detailed reports
- Better track inventory
- Improve accuracy
- Easily grows with business

Benefits of Cash Registers

- Low cost for startups
- Most models easy to use
- Fewer components
- Basic functions and reporting

Before you buy either a cash register or a POS system, learn what kind of warranty or support comes with the machine. Plan how you or your staff will be trained to use the equipment. Once you make your purchase, stock up on any necessary supplies such as ink ribbons or receipt paper.

Where to Buy?

Complete retail point of sale systems can run anywhere in the neighbourhood of $1,500 to $20,000. The more POS hardware added to the system, the higher the cost. Retailers can find a simple cash register for under $200, but expect to pay between $250–800 for more advanced registers with scanners, display pole and many functions. It is fine to choose a low-end model to start with as long as you upgrade later, as the business grows.

Look in your local paper for businesses closing their doors. A second hand cash register or POS system will be much less expensive than a new on. If the business has recently closed, it may be a fairly newer model. Another option for cash-strapped start-up businesses is to lease a system from a business equipment supplier.

Task Before you buy or lease a cash register or POS system, get the advice of an experienced professional before making your final decision. What were recommended suggestions to you?

A bad choice could result in loss of sales or negative customer service. However, in the end only you know what's right for your retail business.

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10.2.2 Parts of a POS System

Retailers can't choose the right point of sale system for their business if they don't first understand the parts of the POS cash register. The following is a guide to understanding point of sale hardware.

- POS Computer
- Cash Drawer
- Customer Pole Display
- POS Monitor
- Keyboard
- Scanner
- Signature Capture Devices
- Receipt Printer

More POS Hardware

The basic point of sale (POS) system consists of a cash drawer, receipt printer, monitor, and an input device. Retailers can use touch screens, programmable keyboards, scanners, or other handheld devices to enter data into a POS system. The following are POS hardware vendors, a walk-through of the components and advice for selecting a computerized cash register for your business.

POS Software

Point of Sale software processes the basic customer transaction for a retailer. That includes providing item descriptions, prices, adding taxes and other cash register functions. POS software with more advanced functionality includes the ability to process returns, coupons, price overrides, inventory tracking and retail accounting reports. Here are a few points of sale system software packages.

Daily Cash Drawer Report

The starting cash on-hand is put back into the cash drawer and stored for the evening, while the deposit is prepared for the bank. All credit card slips, terminal reports and other register receipts can be stapled to this form and filed by date.

Daily Sales Report

Date_____ Cashier _____

Cash	$_____
Checks	$_____
MasterCard	$_____
Visa	$_____
AMEX	$_____
Discover	$_____
Store Credit	$_____
Other	$_____
Starting Cash On-Hand (Subtract This Amount)	$_____
Deposit Total	$_____

Contd....

Notes

Returns	$_____
Voids	$_____
Paid Outs	$_____
Other	$_____
Total Cash Paid Out	$_____
Add Deposit Total & Total Cash Paid Out	$_____
Sales Tax Collected	$_____
Register Reading	$_____
Difference (Over + or Short –)	$_____

Balancing a Cash Register

The process of counting the money, reconciling the receipts and balancing the cash drawer creates an internal control or accountability of the day's transactions is called balancing a cash register.

Self Assessment

State whether the following statements are true or false:

5. The one item in a retail store a business owner can do without is the cash register.
6. When the doors are open and the lights are on, the cash register becomes more than a safe place to store money.
7. The amount of bells and whistles needed for a cash register will vary by type of business.
8. A bad choice could result in gain of sales or positive customer service.

Caselet

Generating Cash for Growth

Successful organisations are able to compete in tough environments.

To do this, they need:

- capable managers who are willing to face facts and make hard decisions
- excellent resources, including flexible and enterprising employees
- financial resources to support initiatives for change, growth and improvement

MFI is looking to move on from being 'a company that sells furniture' to 'a company that delights customers'. In the past, MFI's success was based around high quality products at affordable prices, with a reasonable level of service. However, in today's market place that is not enough: it does not differentiate MFI sufficiently from its competitors.

MFI sees its transformation as a journey with several milestones along the way. The first milestone was to establish a firm financial foundation on which to build a competitive strategy. The next was to create a fully integrated company that is focused on providing unparalleled customer service.

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MFI specialises in furniture and fittings for kitchens, bedrooms, home offices, bathrooms and living/dining rooms. It is the market leader in the UK furniture market, which is worth £10 bn a year.

MFI has worked with a range of top designers to create the furniture designs required to:

- build competitive advantage
- create a range of exciting customer focused designs
- establish a totally new look for MFI's furniture stores to make them more attractive and appealing to the customer.

MFI's major brands include:

- Hygena – the UK's Number 1 kitchen brand
- Schreiber – a premium furniture brand associated with leading craftsmanship.

MFI holds 30 of the new kitchens market and 24 of the bedrooms market.

As well as being the market leader in the UK, MFI also has a strong presence in France with its leading brand Hygena Cuisines. Howden Joinery is another important part of MFI. It supplies kitchens to the building trade and is the first choice for small builders and contractors. Howden Joinery has recognised that its customer (the local builder) has different requirements to a member of the public buying through its retail store network, i.e. the stock needs to be there to take away from Howden Joinery depots 'vs' delivery to customers' homes.

Recently MFI has introduced Howden Joinery in the USA on a pilot basis operating in the same way as the UK i.e. stock to take away.

Source: http://businesscasestudies.co.uk/mfi-furniture-group/generating-cash-for-growth

10.3 Use of Information Technology in Cash Management and Billing

The advent of information technology has made the job of assortment planning easier, given the exponential and spiralling combination of various SKUs. One of the technologies that have recently facilitated the same is data mining.

Example: The retailer first does a market basket analysis for the representative customer of the store.

Then "association rules" as a data mining technique for assortment planning can be undertaken. The association could be in the form of complementarity, conditional independence and substitutability. These rules establish the association between consumer behaviour as well as the assortment available. In this way, the store can achieve greater synchronisation between display or selling of items and consumer requirements. Information technology tools thus act as facilitating entities in the efficient planning of assortments. In fact, customisation of the assortment at the individual customer level is possible, given the tracking of the consumer, over a period of time. This can actually result in customer delight. A retailer can find out from typical buying behaviour of a customer his level of experimentation with regard to the inclusion of new product categories or forms through market basket analysis and thus ensure a proportion of the same in all future purchases. This could be a suggested assortment to every customer.

Notes

Notes Assortment planning features the primary level of decisions with regard to a category management and therefore reflects category profits. In the case of category management, the approach towards stocking products or items in stores has undergone a metamorphosis from vendor/supplier driven to product/brand driven to customer driven approach. Assortment has to reflect consumer tastes and preferences and hence marks as the true test of implementation of the marketing concept. Consumer behaviour is both on rational and perceived counts. Therefore, assortment needs to take both the real and tangible factors of number as well as perception, to satisfy consumer needs. This would become central to all decisions in order to have an impact on marketing. In the case of national chain stores, assortment has also to take into account regional sensibilities.

Some leading retail chains manage around 400,000 products. Almost all major retailers, irrespective of their size, aspire to lead in their market niche. To this end, they are all going through aggressive expansion campaigns to achieve the same. Having a comprehensive IT policy helps an organisation put bits of information together and allows decision-makers to get the whole picture. It also helps evaluate all decisions taken so far.

While deciding to implement a new technology, the major factors are scalability and user adaptability. This is because the most important thing in retail is to be customer friendly. Ultimately, the business is all about providing service to the end customer. The customer in the store is the prima facie reason why a retail business opts for a particular technology.

Self Assessment

Fill in the blanks:

9. The advent of information technology has made the job of assortment planning easier, given the exponential and spiralling combination of various .....
10. One of the technologies that have recently facilitated the same to IT is .....
11. ..... features the primary level of decisions with regard to a category management and therefore reflects category profits.
12. While deciding to implement a new technology, the major factors are ..... and user adaptability.

Caselet

RedPrairie Cash Management

More Visibility. More Accountability.

Accurately tracking and managing cash and other forms of payment are essential components of every successful store. No other area of store operations is as prone to

Contd....

Notes

leakage from sloppiness, dishonesty or just plain honest mistakes. For example, did you know that more than 35% of all employee theft occurs at the register?

Thieves in the House

Don't let unscrupulous employees undue the results of your hard work by draining the till and your bank account.

RedPrairie Cash Management is an automated closed-loop system that tracks cash and payments from the moment they leave customers' hands until they are safely deposited in your bank account. Since personally monitoring every transaction at every register is impractical, Cash Management extends your capabilities, giving you a powerful and effective loss prevention tool.

A Flexible System for Many Different Retail Environments

RedPrairie Cash Management seamlessly integrates with many different POS systems to ensure proper handling of all payments. The system can also be set up for corporate or franchised environments. RedPrairie Cash Management lets you:

- Monitor and track all payments from the point of collection
- Automatically reconcile payments against sales
- Create integrated analyses of transactions and inventory
- Generate reports to assess employee performance
- Watch Key Performance Indicators and generate alerts for evidence of theft or fraud, such as number of transactions or excessive voids, cancels or coupons

You work hard for the revenue in your stores. Make sure that you can account for every dime with RedPrairie Cash Management.

Source: http://www.redprairie.com/cash-management

10.4 E-Tailing

E-tailing is the selling of retail goods on the Internet. Short for "electronic retailing," and used in Internet discussions as early as 1995, the term seems an almost inevitable addition to e-mail, e-business, and e-commerce. E-tailing is synonymous with business-to-consumer (B2C) transaction.

E-tailing began to work for some major corporations and smaller entrepreneurs as early as 1997 when Dell Computer reported multimillion dollar orders taken at its Web site. The success of Amazon.com hastened the arrival of Barnes and Noble's e-tail site. Concerns about secure order-taking receded. 1997 was also the year in which Auto-by-Tel reported that they had sold their millionth car over the Web, and Commerce Net/Nielsen Media reported that 10 million people had made purchases on the Web. Jupiter research predicted that e-tailing would grow to $37 billion by 2002.

E-tailing has resulted in the development of e-tailware – software tools for creating online catalogues and managing the business connected with doing e-tailing. A new trend is the price comparison site that can quickly compare prices from a number of different e-tailers and link you to them.

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E-tailing is gaining ground. In the year 2003, clothing and apparel segment clocked online revenues to the tune of $3.6 billion. Online retailing is classified into three main categories:

1. ***Click:*** The businesses that operate only through the online channel fall into this category. Prominent examples in this category include: Dell, Amazon.com and e-Bay.
2. ***Click and Brick:*** The businesses that use both the online as well as the offline channel fall into this category. Common example includes: Barnes and Noble's.
3. ***Brick and Mortar:*** This is the conventional mode of retailing. The businesses that do not use the latest retailing channels and still rely upon the conventional mode belong to this category.

E-tailing offers the consumers huge amounts of information in the form of web sites with useful links to similar sites that allows consumers to compare products by looking at individual items. The convenience of online shopping is unmatched indeed. Shopping out of your home or office reduces the stresses of waiting in lines and dealing with irritating sales people. However, E-tailing causes problems with fit, since the consumer cannot try the items on. Return policies may also act as turn offs and items can be difficult to return. The shipping and handling costs may turn the customers away. E-tailing requires technology savvy customers and this puts a limit on its potential reach. We can see that E-tailing is emerging as an interesting phenomenon in the retail industry that is on a rise despite the disadvantages associated with it.

According to a Recent Study

1. Presently there are 4 million Internet users in India and the number is growing.
2. Computer Hardware, cinema, Books, Music cassettes/CDs, travel tickets and gifts are sold through the net in a big way.

10.4.1 Advantages of E-tailing/Multi-channel Retailing

E-tailing offers unique advantages to the consumer that no other form of retailing can match. The hypertext nature of the medium allows for more flexible forms of transactions (growth of C2B and C2C) to flourish. It allows for easier comparisons across broad product categories with the evolution of shopping bots and similar mechanisms. The medium also offers flexible/ dynamic pricing mechanisms to the consumer. These evolutions reduce any friction in the online market place and stimulate the use of the web as a retail environment. In the long-run, this will benefit the marketers as well as the consumers. Further, this will penalize the marketers who thrived in market places that had entry barriers in the form of a lack of freely available information. Earlier, such a situation restricted the customers in making informed choices and led to inefficient pricing and localized monopolies. Reasons for e-tailing coming up as a hot avenue in the retail sector can be attributed to multiple factors such as:

No Real Estate Costs: E-tailing does not require a retailer to invest in warehouses, showrooms or other commercial properties at prime locations. They operate through their web sites and thus save drastically on the real estate costs. The real estate costs in the metropolitan cities can be prohibitively high. Moreover, maintenance costs of a virtual store are negligible in comparison to a physical store.

Easy and Comfortably: The Internet offers easy and comfortable access to all the required information by a customer. Over the Internet, product information is just a few clicks away, easily accessible from the comfort of a home. Traditional retailing is quite cumbersome in contrast to e-tailing. It involves frantic search for the required product, running up and down the retail store, asking the poorly trained store assistants for help. The process involves significant wastage of valuable time. Simply put, shopping on the Internet for fifteen minutes is equivalent

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to a two-hour trip to the mall. Consumers prefer to save their precious time so that they can better utilize it.

Customer Interaction: The greatest benefit of online commerce is its ability to interact with the customers. Such an interaction allows the retailers to reach the individual customers and react appropriately to their responses. Interaction acts as a vital tool for mass customization. The common examples include online marketing of books, flowers, software and education. This has also led to greater satisfaction among the online buyers. According to a research agency, 81% of the buyers were found to be highly satisfied with their online purchases.

Mass Media: A supermarket is limited in its area of operation. It caters to a specific geographical location such as a city and/or its suburbs. However, a web site is globally accessible leading to a worldwide reach and an increased potential customer base.

Search Option: With web search capabilities (which need further development) it is easier to find the particular types of goods required by a customer. The consumer decides what he wants to buy rather than the retailer offering what he wants to sell. This ultimately translates into consumer empowerment.

User Friendly: Customers can execute transactions via the same medium the information is provided, so there is no disconnect between the desire to purchase and the ability to purchase. (Payment schemes are still evolving and therefore this advantage is likely to become more apparent in the future.)

Effective Price Discrimination: E-tailers can use price discrimination in an effective and efficient manner. E-tailers can use previous transactions to identify the likelihood of products being purchased at certain price points and use this information for price discrimination.

Customized Product Placement: E-tailers can change the online placement/display of a product based on the previous transactions so to increase the visibility of goods that the user is more likely to buy based on the previous encounter at the time purchase. This allows a contextual design of placement to ensure conversion of a visit/hit to the web site into a sale.

Global Reach: Customers have a much wider choice at their fingertips (a variety of e-tail sites to choose from etc.) In this way, the web creates a global market place that brings together multiple consumers and retailers.

10.4.2 Disadvantages of E-tailing/Multi-channel Retailing

Most of the e-tailing ventures have not been as profitable as they were expected to be, the primary reasons were:

1. ***Security issues:*** Security issues hold the centre stage when it comes to consumer concerns while shopping through the online media. A lack of trust and privacy concerns prevents a lot of consumers from making online purchases. Consumers are also concerned with the use of their personal data provided during the online transactions.

2. ***Customer retention:*** In e-tailing, an increase in the customer retention by 5% leads to a corresponding increase in profits by 25%. Most of the people buying on the Internet do so out of curiosity and this makes a repeat purchase highly unlikely.

3. ***Unsuitable for certain product categories:*** In case of product categories that require relatively higher customer involvement, the e-tailing route is found to be grossly inadequate in providing sufficient information to the customers. Examples include retailing of products like clothes, cosmetics etc. Most customers are comfortable buying books and music on the Internet because the information required for making a purchase and the customer involvement is low. However, in case of a blue Trouser, the customer may want

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to know things such as: Which shade of blue is it? How does it feel on the skin? How easily does it crease? The traditional retailing does not suffer from such a problem. In the non-standard product categories, the Internet offers limited amounts of crucial information to the customer. In such cases, only the seller knows about the true quality of the trouser and this leads to an 'information asymmetry'.

4. ***Shopping is still a touch-feel-hear experience:*** Some do not suffer from 'time-poverty' and shopping is still considered to be a family outing. Hence this type of an environment creates a problem of customer retention.

5. ***Complicated medium:*** Ease of use is a problem, as the web design may suffer from high complexity bordering on total chaos in some cases.

6. ***Navigation hiccups:*** E-tail stores do not have standardized designs in comparison to the physical retail stores and product catalogues. Therefore different user behaviours (navigation schemes) need to be learned for each e-tail store. This is a temporary issue as the evolution of the web continues.

7. ***Website design flaws:*** Graphic presentation and aesthetics may not be as compelling for a web site as in case of a physical retail store or a product catalogue. This is a temporary issue that may resolve with the evolution of the web design.

8. ***Limited access to the Internet:*** Not all customers have access to the web, as they do to the postal system. This is a temporary issue as the evolution of the web continues.

10.4.3 Barriers to Growth in E-tailing

1. ***Issues related to customer service, distribution and logistics:*** E-tailing tends to facilitate the business transactions, but unless the transaction involves a digital product such as software or music etc., due emphasis should be given on prompt and smooth delivery of the products. Majority of e-tailers focus on significant marketing efforts to attract customers in order to execute transactions, but tend to ignore the important aspects of customer satisfaction through a flawless delivery. It is important to follow through and ensure a smooth delivery to the customer. The companies can also use the web to enhance the customer experience by allowing the customers to track the status of the transaction. So it is not simply a case of allowing for delivery, but enhancing the delivery experience with the web.

   Once this relationship is formed (via the transaction), the e-tailer can follow up with a solicited marketing program to keep the customers engaged. Customer service should be considered a high priority as it impacts the long-term relationship between the customer and the e-tailer. Customer service should be proactive to ensure prompt delivery leading to satisfaction with the product and subsequently offer a medium of dialog to the customer with the e-tailer. Recently, more attention has been paid to the delivery aspect of the entire transaction.

2. ***Issues related to the mode of payment:*** In the online medium, credit card transactions are fast becoming the preferred mode of payment. Credit card providers take a percentage of the transaction, and this may be higher for the web, than for a traditional retail store. The high transaction cost is perceived as a risk premium because the e-tailer cannot capture the signature of the purchaser to remove any possibility of credit card misuse in the online environment.

   Other emerging payment media include:

   (i) *Smart Cards:* Smart Cards are a more accepted form of payment across Europe, but due to the high penetration of credit cards in the US, Smart Cards have had a limited

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global impact. Much discussion has taken place with regards to the development of "smart cards" to facilitate online transactions. Smart cards allow for smaller transactions and provide anonymity (ensuring privacy) to the consumer while making the purchase. American Express is developing a smart card that would include a chip to allow the storage of digital data (transaction history and monetary values). The use of Smart Cards also requires a "reader" be placed on a consumer's machine for accessing the web (whether a PC or a mobile device). This additional need of infrastructure acts as a barrier in its mass adoption by all the parties involved in the transaction be it the consumer, the e-tailers or the payment providers.

(ii) *PayPal:* PayPal is a tool that facilitates person 2 person (P2P) transactions in an online environment such as the eBay (eBay now owns PayPal). This payment option allows the web sites and individuals who do not accept credit cards to process online transactions in an effective and efficient manner. Both the transacting parties are required to have their own Paypal accounts. However, compared to a credit card, Paypal is a much secure online payment service since credit cards numbers are not transmitted over the internet.

(iii) *VeriSign:* VeriSign provides secure online payment options to facilitate online commerce. It purchased Cybercash that offered multiple payment solutions to its customers.

For the online retail markets to grow to their full potential, a standard and secure medium of exchange needs to evolve so as to reduce friction in the virtual global market place. With respect to the web, we need to develop a medium that becomes a standard to increase the participation rates of e-tailers and consumers. Since credit cards have taken a lead, they may become the standard. They do not facilitate micro transactions, which clearly would open up new markets that will be exclusive to the web. This is an area where we not only need to develop a medium to facilitate exchange, but also determine the likely goods (web content, music etc.) that will become viable for an online exchange.

3. ***Personalization vs. privacy issues:*** In an online environment, there is a conflict between the need for privacy on the part of the consumer, and the need to be able to personalize the offering on the part of the e-tailer (aimed at providing a better experience to the consumer). Finding equilibrium between the two is tricky. E-tailing solutions that can simultaneously address both the issues can make a significant impact on the growth of this segment. This also ties in with new payment systems that are developed, as the payment (transaction) involves an exchange of the critical data. Issues relating to the ownership of that data (after the transaction) and the rules governing the use of that data are important.

Many upcoming companies are offering intermediary services focusing on certification of e-tailers and their use of the personal data collected from the customer during an online transaction.

Most current personalization solutions focus on personalization based on the user experience with the individual web-site. Systems need to be developed that allows for personalization across multiple web-sites or the entire web and the connection between the e-tailer and its physical presence in case the customer visits both.

Other risks associated with e-tailing include the security of the transaction and the integrity of the business with which the customer transacts. The customer is justified in being concerned with the security of the transaction data provided in an online transaction. Since the e-tailing environment does not provide the same assurance as the physical world in terms of the integrity of the business, e-tailers with an unknown brand name need to make extra efforts.

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Lab Exercise Go to website http://www.emeraldinsight.com/learning/management_thinking/articles/pdf/etailing.pdf and gather information on the past, present and future of retailing.

Self Assessment

State whether the following statements are true or false:

13. E-tailing is the selling of retail goods on the Internet.
14. Graphic presentation and aesthetics may be as compelling for a web site as in case of a physical retail store or a product catalogue.
15. The customer is always unjustified in being concerned with the security of the transaction data provided in an online transaction.

Case Study

Andalusia Cash and Carry Hardware and Lumber Store Point of Sale (POS)

Andalusia Cash and Carry Home and Hardware Store Implements Hardware Store POS to Enhance Communications with Suppliers, Increase Pricing Flexibility and Improve Inventory Control.

Business Needs

Andalusia Cash and Carry and Luverne Cash and Carry are hardware and building material stores located in Alabama. Having been in business for over 40 years, Cash and Carry used to manually process their transactions on a daily basis and struggled with the lack of control over inventory, pricing, accounts receivables/payables and credit card processing. They didn t have real-time insight and couldn t accurately forecast to improve their profitability.

Cash and Carry has three locations; Andalusia, Luverne and Greenville. Each of these locations processed over 100 transactions a day by hand. This manual process was extremely time consuming, inaccurate, and didn t allow for much pricing flexibility. Cash and Carry provides hardware products to both consumers and contractors and needs to price products based on a number of discounting levels, but their manual processing was holding them back. Depending on who was entering the sale, customers or contractors might not get the right price, causing discounting variations and unhappy customers.

Solution

In 2009, Cash and Carry started the search for a solution that could help them process transactions electronically and keep inventory information updated. Cash and Carry was impressed with Microsoft Dynamics® RMS and System Solutions from the beginning. Microsoft Dynamics RMS had a Windows based user interface that everyone could easily understand. Support was also high on the list of priorities.

Implementation of Microsoft Dynamics RMS at Cash and Carry took less than 30 days and they ve been reaping the benefits ever since.

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Benefits

Enhanced Communications with Suppliers for Pricing Flexibility and Inventory Control.

Instead of relying on phone calls and hand-written notes, Cash and Carry now communicates with unlimited suppliers electronically. Microsoft Dynamics RMS connects to their suppliers simultaneously every night, keeping their supplier catalog(s) up to date in Microsoft Dynamics RMS at all stores. Supplier SKUs (stock keeping units), costs, descriptions, UPCs (universal product codes), images and more are updated. Each supplier cost is tracked simultaneously for items that can be purchased from two or more suppliers. This allows Microsoft Dynamics RMS to automatically suggest purchase orders for items from the suppliers with the lowest cost, increasing Cash and Carry's profitability.

Cash and Carry can now generate accurate cost purchase orders with Microsoft Dynamics RMS, helping streamline the entire ordering process. Once they receive the product, they commit the electronic invoice in Microsoft Dynamics RMS which updates item quantities and landed costs. Cost changes can be automatically translated into pricing changes using margin preservation. Now Cash and Carry can price out materials appropriately, giving the right people the right price. By knowing the cost of their items, Cash and Carry can keep discounts consistent and hold on to those loyal customers and contractors.

The electronic communication has also improved the accuracy of their in-store retail prices. They used to deal with manual mistakes on a daily basis and had to check, double check, and triple check to ensure the point of sale prices matched the product pricing in the store. With Microsoft Dynamics RMS, there are few mistakes and the labour required to check and verify has been eliminated.

With improved communications and accurate information, Cash and Carry can now focus on higher level operations, like adjusting buying trends that help them maintain better stock levels, unique products, and special order requirements. They no longer struggle with not enough or too much inventory.

Streamlined Accounting

By electronically centralizing all accounting information at the Greenville location, Cash and Carry is able to achieve real-time insight into financials. Microsoft Dynamics RMS Headquarters has made it possible for the three locations to seamlessly communicate with one another, giving Cash and Carry more control over their enterprise accounts receivables.

Another benefit is the credit card processing speed. They can process credit cards in 30 seconds versus the 5 minutes it used to take because of they no longer rely on a dial up connection. Gale Slagley says, "We can check out 4x times more people with Microsoft Dynamics RMS Point-Of-Sale versus hand written tickets."

Efficiencies Add Up

Cash and Carry can now do more with less and be confident in the accuracy of their data. Gale Slagley says, "We are operating with less staff because of the efficiencies our Microsoft Dynamics RMS Point-Of-Sale and Headquarters system offer us.

For example, we can process financial statements with one person versus the three people it used to take."

One of a Kind Support and Customization Capability

Cash and Carry receives 24/7 support from System Solutions including the ability to customize anything they need within their Microsoft Dynamics RMS system. Gale Slagley

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says, "The flexibility of Microsoft Dynamics RMS is impressive and we are extremely happy with the "anytime support" we receive from System Solutions."

Questions:

1. Analyze the case and interpret it.
2. Write down the case fact.
3. What do you conclude from it?

Source: http://www.microsoft.com/casestudies/Case_Study_Detail.aspx?casestudyid=710000000665

10.5 Summary

- Planning Long reliant on a maze of disconnected spreadsheets and manual processes, capital expense planning has historically been a thorn in the sides of organizations large and small—the problems of incorporating multiple areas of expertise and a large degree of inherent risk leading the best-intentioned projects to go wildly off plan.
- With today's emerging software solutions, however, this doesn't have to be the case.
- Building on the capabilities of Web-based budgeting and forecasting applications, these solutions combine the specialized functionality required for capital expenditure planning with guided workflow and process support to transform the planning of capital expenditures into an accurate and reliable process.
- Capital budgeting (or investment appraisal) is the planning process used to determine whether a firm's long term investments such as new machinery, replacement machinery, new plants, new products, and research and development projects are worth pursuing.
- The Private Finance Initiative (PFI) describes a partnership between the private and public sectors in which the risks and rewards of financing long-term developments are transferred to the private sector.
- Managing the financial consequences of capital expenditure planning is especially challenging—not surprising since estimating the state of a balance sheet, a dozen years out or predicting project cash flows over a decade are exercises with an inherent amount of uncertainty.
- Planned and unplanned changes go with the territory.
- Retailers can't choose the right point of sale system for their business if they don't first understand the parts of the POS cash register.

10.6 Keywords

Balancing a cash register: The process of counting the money, reconciling the receipts and balancing the cash drawer creates an internal control or accountability of the day's transactions. This process is called balancing a cash register.

Budget: A budget is a plan for your future income and expenditures that you can use as a guideline for spending and saving.

Budgeting: It is the sum total of all activities involved in preparing budget.

Capital budgeting (or investment appraisal): It is the planning process used to determine whether a firm's long term investments such as new machinery, replacement machinery, new plants, new products, and research and development projects are worth pursuing.

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Cash Management: Cash management refers to a broad area of finance involving the collection, handling, and usage of cash.

POS Hardware: The basic point of sale (POS) hardware consists of a cash drawer, receipt printer, monitor, and an input device.

POS Software: Point of Sale software processes the basic customer transaction for a retailer. That includes providing item descriptions, prices, adding taxes and other cash register functions.

Private Finance Initiative (PFI): The Private Finance Initiative (PFI) describes a partnership between the private and public sectors in which the risks and rewards of financing long-term developments are transferred to the private sector.

10.7 Review Questions

1. Define the term cash management.
2. Discuss evolution of cash management.
3. Describe budgeting in detail.
4. Explain day to day cash management.
5. What is the importance of having day to day cash management.
6. Define the term E-Tailing.
7. Write some of the applications of E-tailing.
8. What is meant by point of sales?
9. What is POS hardware?
10. What is POS software?
11. Write down the Challenges of Budgeting for Capital Expenses.
12. Explain the challenges presented by current practices for capital expenditure budgeting.

Answers: Self Assessment

1.	costly	2.	put off
3.	key	4.	cross-disciplinary
5.	False	6.	True
7.	True	8.	False
9.	SKUs	10.	data mining
11.	Assortment planning	12.	Scalability
13.	True	14.	False
15.	False		

Notes

10.8 Further Readings

Books

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Unit 11: Loss Prevention and Shrinkage Control

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Objectives

After studying this unit, you should be able to:

- Define importance of security measures
- Discuss reasons for shrinkage
- Describe methods and ways to reduce shrinkage
- Explain scrap and surplus management

Introduction

For all retailers, the standard sign of success is an annual increase in business volume. Concentrating on selling more, more, more is key; but doubling, or even tripling, gross profits is small consolation if the net profit remains the same, or – heaven forbid – decreases. It's the bottom line that counts, and mushrooming costs can give the growing retailer a false sense of security.

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One retailer is of the opinion that, if any retailer tries to cut back during the hours the store is not open, so does the public… they don't see the impact. If a group of 10 normally comes in an hour early to straighten up, cut that back to a group of six, and it makes a big difference, yet the customer doesn't really feel it.

In this unit, we will discuss importance of security measures, reasons for shrinkage and methods and ways to reduce shrinkage. We will also focus on scrap and surplus management.

11.1 Importance of Security Measures

To operate a successful retail business, we need to create a secure environment – for our customer, our employees, and the store itself. Retail security includes many aspects: keeping intruders out and keeping track of who comes in; protecting merchandise from shoplifting and employee theft; responding to smoke; fire or other emergencies. Security – the word can bring to mind two diametrically opposing images: blissful safety, or a world of suspicion and fear. For co-op retailers, security should conjure images of careful and prudent protection of our member-owners assets. All too often, co-ops jeopardize their hard earned assets – cash, inventory, and equipment – through either naivete or neglect.

As a retail store owner, you know it's important to ensure that your retail space is safe for both customers to shop and employees to work. There are a variety of ways in which a workplace can become unsafe, including inattention to detail or inconsistent floor checks that may lead to injury or illness. While the Occupational Safety and Health Administration (OSHA) has safety recommendations for workplaces, your retail store is only as safe as you keep it. There are a variety of factors to keep in mind when evaluating the safety of your store.

Task Study various recommendations provided by OSHA and make a summary report of that.

11.1.1 Safety and Security Factor Considerations in the Retail Store Design

The basic design thumb rules of designing any space stay the same: safety and protection should never be overlooked. Many a time, these factors are negated or given second place, depending upon the commercial utilization and viability of that particular space. These important factors should be taken into account right from the drawing board phase of the design.

Let's take a brief look at some of the major areas of security concern and evaluate how your store's operation measures up to common standards. Remember: even though your store is a co-op, you are susceptible to theft. Experienced criminals as well as "first timers" may see you as an easy target. Don't be caught off guard!

11.1.2 Fire Safety and Fire Hazards

Fire safety refers to precautions that are taken to prevent or reduce the likelihood of a fire that may result in death, injury, or property damage, alert those in a structure to the presence of an uncontrolled fire in the event one occurs, better enable those threatened by a fire to survive in and evacuate from affected areas, or to reduce the damage caused by a fire. Fire safety measures include those that are planned during the construction of a building or implemented in structures that are already standing, and those that are taught to occupants of the building.

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Fire hazards may be abundant in your retail store. Factors such as exposed wire from lighting or computers, open flames in a store display, improper chemical storage in a back room or combustible materials left near a heat source are major fire hazards that could harm both employees and customers. To ensure you're prepared for any fires that may arise, always keep fire extinguishers in your store and make sure all employees are trained in how to use them. Schedule routine fire extinguisher inspections to verify that they function properly.

11.1.3 Ergonomics

According to OSHA, ergonomics is the science of matching your workplace requirements to your employees' capabilities. Mismatching job requirements to capabilities can result in employee injury or illness. For example, if you hire a petite person to lift very heavy boxes for hours on end, you may risk injury to your employee due to poor ergonomics. OSHA's examples of some common ergonomic risks include those jobs that require frequent or heavy lifting, prolonged awkward postures or situations in which the room temperature is very cold for a long time.

11.1.4 Air Quality

Retail stores often may be located inside other buildings such as malls, with no windows to open in case the store needs to be aired out. Without proper ventilation, the air in a retail store may begin to collect mold, fungus, bacteria or specific vapours from products used. To keep air quality safe in your retail store, the Retail, Wholesale and Department Store Union recommends installing a mechanical system that cycles in fresh outdoor air and circulates it throughout your store, both in the main floor area and in any back rooms. If a mechanical air system is already in place, check to see that it is functioning properly and hire a professional to fix it in case it stops working.

11.1.5 Visual Inspection of Premises

Visually inspect your store's premises consistently to ensure that no hazards are apparent. These hazards may include uneven flooring, spills that could cause a customer or employee to slip and fall and misplaced boxes or other items on the floor that may cause someone to trip and hurt themselves. Make sure spills are mopped up immediately, and remove clutter from your store's floor. If you do not plan to be in the store every day, train your managers about what to look for to keep your store's premises safe.

Where your retail store is located can determine what safety measures you may need to take in case a natural disaster occurs. For example, if you are in a region where earthquakes are common, you may take special precautions by not stacking inventory high above your customers' heads where it can fall with earth movement. If tornadoes occur in your area, be prepared with a plan that allows you to alert customers immediately to any watches or warnings. If possible, have a safe sub-room built below ground where you, employees and any customers can wait out imminent tornadoes. Keep safety kits that include water and non-perishable food in case employees and customers are unable to leave your store after the natural disaster is over.

11.1.6 Crime

Whether you've experienced shoplifting or other types of crime in your store, or if similar crimes have happened at nearby retail stores, the safety of your customers and employees may be in peril if a crime can occur on your premises. Be prepared to nip crime in the bud by taking measures that may include installing a security alarm system, setting up surveillance cameras in different parts of your store and hiring a security guard who can monitor your store during business hours.

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11.1.7 Lighting

Low lighting may create the ambiance you are looking for in your retail store, but it can lead to more accidents or crime. Poor lighting may make it easier for shoplifters to steal goods without being clearly seen. Customers or employees also may have problems seeing objects on the floor and could trip and fall as a result. Always keep good lighting on throughout your store's front end and in stock rooms.

11.1.8 Employee Training

A variety of emergencies in your store could require a first aid-trained employee to handle. For example, if an employee cuts himself unpacking inventory, he may need to properly know how to clean and bandage the wound to avoid infection. If, on the other hand, a customer begins to choke on candy you've put at the front register, one of your employees may save her life by administering the Heimlich manoeuvre and dislodging the candy from her throat. Hire a first-aid professional to train your employees in basic first aid, and always keep first aid supplies on hand in case of emergency.

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Cost Control

A retail manager agrees that cutting salary costs in the small store can be done without hurting business. "Actually, maybe it's helped, since cutting staff means more people (everyone, from customers to delivery) are dealing directly with me. That has to be a benefit; people appreciate speaking with the owner when they have a problem."

Inventory control is another money crunching area. One retailer who deals predominantly with a single paper goods company, which is a 10 minute drive from his store, cites an example. "Because this company is capable of delivery in three days, we're allowed the flexibility of not keeping extra stock on hand. And we don't need to carry as many different kinds of patterns." He adds, "People like to pick exactly what they want from the catalogue. I call while they're here, to verify delivery, and they're happy for the extra choices and service." In addition, he feels this cuts way' down on waste.

All retail outlets caution not to cut too far, otherwise customers assume empty shelves mean you're going out of business. They do not prefer to carry as much inventory in their store. Of course, they stress staying on top of stock in bigger areas, like "over-the-hill" or children's birthdays. Retail stores need to spend where the money is coming in, and cut back on the rest.

A retail chain owner, who also is responsible for purchasing, says that one smart way to cut inventory, is getting rid of holiday carry over. "It's more worthwhile for me to dump it at 75 percent off, than to warehouse it as inventory for an entire year. A lot of people think they don't have much in their back room, but if they inventoried it, they'd find they have a lot." Simply put, reducing inventory with low turnover, and never running out of items with a high turn over will save you money and space.

He stresses the importance of keeping track of what's sold well in the past, and what's carried over. Paying careful attention to volume is needed, in order to take advantage of free freight or other discounts. He also advised developing sound relationships with vendors so you'll be alerted to price breaks.

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Retailers also try to stay away from waste in the supply area–forms and little things like pencils and pens. All their budgets must be justified and assigned, with a certain person accountable for each budget–maintenance, supplies, vehicle maintenance. And it's really important to do preventative maintenance on delivery vehicles, for example, so the vehicles don't run down to the point where we have huge repair bills.

Present day retailers been aggressively taking the early-pay discounts, and they certainly don't pay early to companies which don't offer discounts. They try to help out local people, for example, having all forms of printing done in the area. However, this becomes tougher and tougher, with funds getting tighter and tighter. When a national printing company offers better deals, they have, on occasion, gone out of state, saving as much as 25 percent, a significant number after adding up all the costs of refund forms, invoice forms, purchase forms and miscellaneous printing.

Retailers nowadays should also take advantage of their electricity distribution company's free energy surveys. "They changed all my light bulbs to energy efficient fluorescents and spotlights; and the whole thing was absolutely free! They last longer than the norm, and my energy savings are projected to be "16,000 a year", one Delhi based retailer says.

These cost-saving techniques may be familiar, but how many retailers are actually putting these to good use? Remember, it's the bottom line that counts, not the retail store's gross sales. Retailer stores must concentrate on reducing expenses and put more spendable cash in their pocket.

Self Assessment

Fill in the blanks:

1. For all retailers, the standard sign of success is an annual increase in .....
2. The real challenge is to try an avoid hurting customer service with .....
3. To operate a successful retail business, we need to create a secure environment – for our customer, our employees, and the ..... itself.
4. Safety and protection should ..... be overlooked.

Caselet

Store Shrink Results Matter

According to Strack & Van Til President, Dave Wilkinson: After just 7 months on the Total Store Manager (TSM) program, our Produce shrink is down 27%, Meat Shrink is down 15%, Deli Shrink is down 18%, Grocery shrink is down 6% and 91% of our store associates understand our objectives and are actively participating. That's really impressive.

Store Managers and District Managers alike have embraced the TSM program. They are actually excited and look forward to the workshops. Feedback is overwhelmingly positive and RESULTS prove it. Stores are cleaner, cash flow impact is excellent, grosses are very good and store teams are focused and determined.

Our Executive Team particularly enjoys the Quarterly Business Reviews. They help to drive execution accountability and help us stay on track toward measured results and consistent and constant improvement.

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> The Retail Control Group approach to *Profitable Selling* and *Store Shrink Reduction* has focused us on selling with optimal shrink control. It's an excellent mindset. Our store standards have definitely improved, formal shrink controls are firmly in place and moral is at an all time high throughout the stores thanks to the Total Store Manager approach. I definitely recommend the Retail Control Group and the Total Store Manager program for reducing Store Shrink.

Source: http://www.retailcontrol.com/press-room/strack-and-van-til-reduces-store-shrink-and-improves-profit-with-aggressive-store-operations-control-program/

11.2 Shrinkage

The difference between the perpetual book inventory and the physical inventory count is called shrinkage. The book inventory is a record of what ought to be on hand in view of what has been received, what has been sold and price changes. Physical inventory count is the volume and value of all the goods actually on hand.

Did u know? Shortages can and will occur at every point where merchandise changes hands or paperwork is created or processed.

Proper systems with built-in controls must be put in place to eliminate or reduce these shortages. While there is not enough room to list all the specific causes of shrinkage, we will give several examples of each of the three general causes: paperwork errors, internal theft and shoplifting.

11.2.1 Forms of Shrinkage

Shrink is a part of the business no one likes to talk about. However, shrink plays a huge part in every retailer's business. Shrink can take many forms, but here are the four most common. They are employee theft, shoplifting, vendor theft and paperwork errors.

What has been your store's shrinkage experience for the last two years? What will it be this year? If it has not been as good as it should have been, now is the time to analyze the possible causes and take steps to keep shrinkage in line this year.

Paperwork Errors

Paperwork errors can happen almost anywhere in the merchandising cycle. For example:

- Marking goods at a price lower than the retail price recorded on the receiving record.
- Failure to record all markdowns.
- Miscounting physical inventory.
- Clerical errors causing the book inventory to be higher than it should be.
- ***Timing is of particular importance:*** When comparing the actual physical inventory count to the perpetual book inventory, care must be taken to ensure that every invoice representing goods that have been received before the physical inventory count is included in the calculation of book inventory.

Notes

Internal Theft

While internal theft can be anything from taking merchandise to taking cash or store supplies, we will focus on those instances of internal theft that pertain to merchandise. Some examples are:

- Writing up a cash sales slip for merchandise but destroying the ticket after the customer leaves and pocketing the cash.
- Recording a false cash refund and pocketing the cash.
- Taking merchandise without paying for it.
- Extending unauthorized discounts or credit card refunds for friends.

Shoplifting

Anyone can be a shoplifter; a regular customer who never intended to steal but gave in to temptation and opportunity, or a seasoned professional.

Caution Shoplifting can occur at any time.

Overages

Although shortages are normally expected, it is not logical to have counted in the physical inventory more than the book figure indicates. Goods are stolen, but not donated to the store. Therefore, overages are due largely to errors in record keeping, although they may be due to an employee trying to cover up the theft of merchandise. Some examples are:

- Recording markdowns without actually reducing prices on price tickets.
- Overstating the physical inventory.
- Including in the physical inventory count merchandise that has not yet been recorded in the book inventory.

Self Assessment

State whether the following statements are true or false:

5. Shrink is a part of the business everyone likes to talk about.
6. Shrink cannot take many forms.
7. The four most common forms of shrinkage are employee theft, shoplifting, vendor theft and paperwork errors.
8. The difference between the perpetual book inventory and the physical inventory count is called shrinkage.

11.3 Methods & Ways to Reduce Shrinkage

There are several factors that affect the reduction of shrinkage:

- Whether or not you have a stated shrinkage goal to work towards.
- Top management's commitment to reduce shrinkage. If top management gives shrinkage control top priority, it will invariably be reduced.

Notes

- Whether or not proper procedures that contain built-in internal controls have been set up for each transaction or event in the flow of merchandise from the time it is ordered until it is purchased by your customer. And whether or not these procedures are being followed.
- The record keeping system being used. The Retail Inventory Method can help keep losses down. The fact is that shrinkage declines when it is measured, and the Retail Inventory Method generally provides the best measurement of shrinkage.

Prevention of Paperwork Errors

Paperwork errors can be controlled by use of a good, well-documented system containing built-in checks and balances. This is an area in which we have helped many retailers by conducting internal security checks and developing written procedure manuals. But a good system is not enough. All employees (receiving clerk, sales people, buyers, office personnel) must be properly trained. They must be told the importance of following the proper procedures. And, of course, management must follow up to see that the proper procedures are being followed.

Prevention of Internal Theft

The retail store by its very nature presents many day to day temptations to employees who handle the merchandise and money of the company. It is the responsibility of managers to remove as many temptations as possible thereby helping to keep employees honest. This is done by setting up procedures containing good internal controls and by seeing that these procedures are followed without exception. For example:

- Require management approval on all refunds and credits.
- All employee purchases should be rung up and checked by the owner, manager or another designated person.
- Keep strict control over refund authorization slips, sales tickets, gift certificates or any other types of forms which can be used by an employee to obtain cash or goods.
- Know your employees. When hiring new employees make an effort to hire honest employees. This can be done through interviewing techniques, by carefully checking references and by the use of carefully developed written honesty tests.

Prevention of Shoplifting

How your merchandise is displayed can have an impact on shoplifting. For example:

- Keep small, expensive items behind a counter.
- Keep your store neat and uncluttered. Neat displays make it easier for alert salespeople to spot missing merchandise.
- Do not have blind spots on the sales floor. Try to avoid counters that are exceptionally high.

While the above can act as a deterrent to shoplifting, well-trained and attentive sales personnel are your best defense. Alert, courteous salespeople can deter many would be shoplifters by their presence. Make sure they are properly trained so they can spot suspicious behaviour and know what to do if they see someone taking merchandise. Your local police department may have information concerning this or may be willing to present a seminar on the prevention and detection of shoplifting.

Self Assessment

Notes

Fill in the blanks:

9. The Retail Inventory Method can help keep losses .....
10. Shrinkage ..... when it is measured.
11. ..... can be controlled by use of a good, well-documented system containing built-in checks and balances.
12. It is the responsibility of managers to remove as many temptations as possible thereby helping to keep employees.....

11.4 Scrap and Surplus Management

Scrap materials are those that are not usable in their present form, but that still have value.

Examples are residual pieces left from operations or other recyclable materials, such as paper. These are not to be confused with trash, which has no value.

Surplus materials are those that, while still in good condition and usable, have no foreseeable use within specified operations during the next 12 months.

Examples include such things as regular Inventoried items that, because of reduction in consumption, are now overstocked, or items that are still produced but no longer used.

Scraps are recyclable and other materials left over from product consumption, such as parts of vehicles, building supplies, and surplus materials. Unlike waste, scrap has significant monetary value.

The salient aspect in management of scrap and surplus items is that it is buyer who is more well-versed and informed regarding the items than the seller. But on the other hand, though revenue received of scrap and surpluses is a sizable sum, it is quite negligible in comparison with that of the company's regular product line. Further the varieties of surplus are so diversified in grades and kinds that it is practically difficult, though not (totally) absolutely impossible for any concern to deal with them.

As a solution to this, the services of scrap consultants come as a rescue. The scrap consultant renders the services of his preliminary survey or scrap and surplus items and their handling procedures. On the basis of his wide experience in the profession, recommends in his report for segregating, grading, handling, weighting and accounting for the company's accumulated surplus stock. The program is implemented under direct audit and periodic survey of the consultant by the supervisor (the person in charge) of its scrap and surplus program. The negotiations from time to time with suitable parties bring a ready disposal of the company's surplus. In return, the consultant is paid a commission on sales of scrap and surpluses.

Some scrap items or scrap items at times, are sold to the employees. If surplus is the result of overstocking or technical obsolescence and the materials are in new or good condition, or if they are odds and ends of scrap described by employees, this can be a satisfactory method of disposal of surplus stock. On the other hand, if the surplus is not in fully satisfactory condition, such sales, regardless of their attractive price, can be a source of resentment on the part of employees towards the employer.

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Most of the concerns do not find this method favourable because of its inherent potential disadvantages. Many sophisticated firms do not sell used surplus to their employees. Especially scarp tools and equipment should not be sold to the employees, since such a concession might encourage scrapping of serviceable tools and equipment, besides the dissatisfaction is commonly witnessed among the employees emanating such sales. Further, it often entails a high cost of paper work and imposes an administrative burden on ensuring complete impartiality in the sale.

Donation of Educational Institutions: At present time, schools and colleges and even university departments actually need machine tools and other type of industrial materials for instructional use in laboratories. The disposal of surplus in this direction is rare phenomenon in the industrial realm. Though this alternative does not yield anything for the surplus or scrap items, it earns a favourable with its social responsibility. This sense, the sum that a concern has to forgo in respect of any such surplus item gifted to the educational institutions, can be very well treated s the premium to avail of higher community confidence.

On the whole, the management of surplus and scrap has its unique features particularly for the manufacturing units which require high usage of consumable items. Processing materials are so frequently likely to be confronted (affected) with the grave problem — how to yield best of the surplus items? The industries suffer swiping and swift generation of its plants and equipments, machinery and tools on account of rapidly developing technologies from time to time are also the victim of high stock of surplus and even scrap heaps. So much with this, scrap industry is characterized by a market of its uniqueness. In the true sense, scrap is usually, intended to be bought rather than sold. The practical bias to the management of surplus and scrap accumulation reveals that no market or regular demand can be crated for such surplus stocks as it is a common phenomenon with regular trade commodities. No means of advertising howsoever effective in its application can do well in this typical industry. The reason underlying rests as the demand is a delivered demand completely dependent on the sale of firm's products and conversely for the raw materials. As a result, when the requisition knocks at the door the items must be ready on hand to be delivered. Once missed the opportunity, it is incumbent upon the manufacturing unit to maintain the large inventories till another indent is received for the items from the user dealer.

Self Assessment

State whether the following statements are true or false:

13. Scrap materials are those that are still usable in their present form, but that still have value.
14. Surplus materials are those that, while still in good condition and usable, have no foreseeable use within specified operations during the next 12 months.
15. Scraps are recyclable and other materials left over from product consumption.

Lab Exercise Go to website http://www2.le.ac.uk/departments/criminology/people/bna/10WaystoKeepShrinkageLowpdf and know how to keep Shrinkage Low.

Notes

Case Study

Market Basket Reduces Shrink 22%

Company Background – Market Basket Foods

Founded in 1961, Market Basket Foods is a privately-owned and operated conventional grocer serving the East Texas and Louisiana with 33 full-service supermarkets. Market Basket supermarkets offer full variety of grocery foods including fresh produce, quality meats, fresh bakery goods and floral departments. Market Basket employs more than 2,000 supermarket associates.

The Profit Challenge

Market Basket Foods faced challenging economic conditions and increased competition from chain store grocers many times its size. While profitable, Market Basket wanted to improve its financial performance and its competitive market position. The leadership team at Market Basket established 4 aggressive goals: (1) reduce store shrink 15%, (2) improve store manager effectiveness to drive store profit 10%, (3) improve perishable department sales, penetration and profit, and (4) improve store supervisor effectiveness.

Strategic & Tactical Implementations

Market Basket President Sky Thompson selected the Retail Control group, lead by Larry Miller, to conduct initial store operations and shrink loss control "needs assessment". Following a detailed companywide and store level 'current practices' review and store manager and supervisory staff interviews, the consultant team from the Retail Control Group presented the Market Basket Executive team with a "Findings & Recommendations" report. Following, the Retail Control Group was selected to lead a shrink reduction and profit improvement initiative at Market Basket. Specific to this initiative were 4 core programs: (1) The Total Store Manager training program, (2) The Professional Store Supervisor training program, (3) Vision, Standards and Internal Brand development, and (4) Internal Store Operations Excellence Audit. Scope of work included customization, training and 12-month implementation effectiveness assurance for execution and accountability.

Based upon excellent program follow-through and best practices execution, Market Basket reduced store shrink 22% and exceed its annual profit improvement goals in just 22 weeks achieving a 5:1 ROI in the first 6 months and is on track to sustain [and exceed] these gains for year one.

Store Operating Improvement Results

Based on pre-implementation benchmarks, store operating results improved to EXCEED project goals. Below are the audited and verified performance improvement results achieved as measured across 33 Market Basket stores, in just 22 weeks.

Total Perishable Shrink Reduction DOWN 29%

Total Non Perishable Shrink Reduction DOWN 31%

Increased Meat Sales UP 5.4%

Increased Produce Sales UP 9.1%

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Produce Gross Margins UP 6%

Increased Cash Flow $700,000 in the first 5 months

Cost of new technology $0

Questions:

1. Analyze the case and interpret it.
2. Write down the case fact.
3. What do you conclude from it?

Source: http://www.retailcontrol.com/press-room/market-basket-reduces-shrink-22/

11.5 Summary

- To operate a successful retail business, we need to create a secure environment – for our customer, our employees, and the store itself.
- Retail security includes many aspects: keeping intruders out and keeping track of who comes in; protecting merchandise from shoplifting and employee theft; responding to smoke; fire or other emergencies.
- Security – the word can bring to mind two diametrically opposing images: blissful safety, or a world of suspicion and fear.
- For co-op retailers, security should conjure images of careful and prudent protection of our member-owners assets.
- All too often, co-ops jeopardize their hard earned assets – cash, inventory, and equipment – through either naiveté or neglect.
- As a retail store owner, you know it's important to ensure that your retail space is safe for both customers to shop and employees to work.
- There are a variety of ways a workplace can become unsafe, including inattention to detail or inconsistent floor checks that may lead to injury or illness.
- The Occupational Safety and Health Administration (OSHA) has safety recommendations for workplaces, your retail store is only as safe as you keep it.
- There are a variety of factors to keep in mind when evaluating the safety of your store.

11.6 Keywords

Ergonomics: Ergonomics is the science of matching your workplace requirements to your employees' capabilities.

Fire safety: Fire safety refers to precautions that are taken to prevent or reduce the likelihood of a fire that may result in death, injury, or property damage, alert those in a structure to the presence of an uncontrolled fire in the event one occurs, better enable those threatened by a fire to survive in and evacuate from affected areas, or to reduce the damage caused by a fire.

Fire safety measures: Fire safety measures include those that are planned during the construction of a building or implemented in structures that are already standing, and those that are taught to occupants of the building.

Notes

Internal Theft: Internal theft can be anything from taking merchandise to taking cash or store supplies.

OSHA: OSHA is the main federal agency charged with the enforcement of safety and health legislation.

Scrap materials: Scrap materials are those that are not usable in their present form, but that still have value.

Shrinkage: The difference between the perpetual book inventory and the physical inventory count is called shrinkage.

Surplus materials: Surplus materials are those that, while still in good condition and usable, have no foreseeable use within specified operations during the next 12 months.

11.7 Review Questions

1. What is meant by term loss?
2. What is loss presentation?
3. What is shrinkage means?
4. Define the term ergonomics.
5. What are scrap material?
6. What is surplus material?
7. What is internal theft?
8. How does internal theft may be controlled?
9. What do you understand by the concept of cost control in retail store?
10. Write a brief note on the concept of shrinkage control.

Answers: Self Assessment

1.	business volume	2.	under-staffing
3.	store	4.	never
5.	False	6.	False
7.	True	8.	True
9.	down	10.	declines
11.	Paperwork errors	12.	honest
13.	False	14.	True
15.	True		

11.8 Further Readings

Books

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Unit 12: The Customer Service Desk

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12.3 Loyalty Programs for a Store

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12.7 Further Readings

Objectives

After studying this unit, you should be able to:

- Define customer service job description
- Discuss exchange of defective products
- Describe loyalty programs for a store

Introduction

Customer service is the provision of service to customers before, during and after a purchase. According to Turban et al. (2002), "Customer service is a series of activities designed to enhance the level of customer satisfaction – that is, the feeling that a product or service has met the customer expectation."

Some have argued that the quality and level of customer service has decreased in recent years, and that this can be attributed to a lack of support or understanding at the executive and middle management levels of a corporation and/or a customer service policy. To address this argument, many organizations have employed a variety of methods to improve their customer satisfaction levels, and other key performance indicators (KPI).

In this unit, we will discuss the customer service desk and exchange of defective products. We will also focus on loyalty programs for a store.

12.1 Customer Service Job Description

The customer service job description gives you a good understanding of the tasks, responsibilities and skills involved in customer service work.

Did u know? Although customer service jobs vary according to sector, the company and the level of the position the fundamental job requirements remain constant.

Notes

General Purpose

Interact with customers to provide and process information in response to inquiries, concerns and requests about products and services.

Main Job Tasks and Responsibilities

- deal directly with customers either by telephone, electronically or face to face
- respond promptly to customer inquiries
- handle and resolve customer complaints
- obtain and evaluate all relevant information to handle product and service inquiries
- provide pricing and delivery information
- perform customer verifications
- set up new customer accounts
- process orders, forms, applications and requests
- organize workflow to meet customer timeframes
- direct requests and unresolved issues to the designated resource
- manage customers' accounts
- keep records of customer interactions and transactions
- record details of inquiries, comments and complaints
- record details of actions taken
- prepare and distribute customer activity reports
- maintain customer databases
- manage administration
- communicate and coordinate with internal departments
- follow up on customer interactions
- provide feedback on the efficiency of the customer service process

Education and Experience

- High school diploma, general education degree or equivalent
- knowledge of customer service principles and practices
- knowledge of relevant computer applications
- ability to type
- knowledge of administrative procedures
- numeric, oral and written language applications
- product knowledge

Key Competencies

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- interpersonal skills
- communication skills – verbal and written
- listening skills
- problem analysis and problem-solving
- attention to detail and accuracy
- data collection and ordering
- customer service orientation
- adaptability
- initiative
- stress tolerance

Self Assessment

Fill in the blanks:

1. The customer service ..... gives you a good understanding of the tasks, responsibilities and skills involved in customer service work.
2. Customer service jobs vary according to sector, the company and the level of the position the fundamental job requirements .....
3. ..... with customers to provide and process information in response to inquiries, concerns and requests about products and services.

Task Visit a retail store and observe its anatomy, study its customer service job description. Make a report on your findings.

12.2 Exchange of Defective Products

The exchange process of defective products enables you to execute recall actions between the manufacturer and the customer, for defective parts of an object to be exchanged with service parts. An object is a special product, for example, a car or a computer. You use this process to offer your customer a defined list of service parts and the maximum permitted quantities for each object.

Example: You execute a recall action due to a high number of warranty claims and complaints received for laptops with serial numbers ranging from 1000 to 2000. Defective hard disks need to be replaced. To avoid further complaints, you inform your customer about the exchange of the defective hard disks. The customer orders the new hard disks from you, and has them delivered free of charge in exchange for the defective ones.

Caution Recalled parts that are still in the customer's stock are processed in a separate returns process.

Notes

Prerequisites

In Customizing for Customer Relationship Management, you have made the following settings:

- To use reference objects and enter the product IDs of the objects in the service recall order, you have created a subject profile with subject profile category Y *Individual Object (Sales Order)*.
- You have created a separate transaction type for service recall processing, and have assigned this subject profile to it under *External Reference Objects*.

Process

The manufacturer runs product analyses, and discovers that repeated complaints point to a defective part as the cause of a problem. These defective parts have to be exchanged for new parts. To solve the problem, the defective part has to be exchanged in all objects in which it was fitted.

To guarantee delivery of the service parts, you create a sales order template. The sales order template contains a list of the parts to be exchanged, and the required quantity for each object. Use transaction type *SALT*, provided in the standard delivery, as a template.

Customers are notified via a product service letter. For this, you create a product service letter and first enter a list of customers affected that should be notified of the recall campaign (*Target Groups* assignment block). In addition, the product service letter contains the list of objects affected by the recall action, as well as a reference to the sales order template that lists the products, with the corresponding quantities that should be exchanged for an object. The product service letter contains details about the following:

- Validity area
- Status of the document
- Target group
- Product IDs of the affected objects
- Link to the sales order template

Caution You must release the product service letter for use in the recall action.

1. The customer receives the message about the recall action via his or her chosen communication channel, for example e-mail, and creates a service recall order with regard to the manufacturer's recall (product service letter) in the customer portal. Alternatively, you can also create the service recall order for your customer. The service recall order comprises the following details:
   - Sold-to party
   - Product service letter ID
   - Product IDs of the objects

   In addition, the service recall order includes a list of the affected objects, for which parts are to be exchanged. The entry takes place in the *Reference Objects* assignment block.

Notes

2. The system checks the validity of the product service letter and the product IDs of the objects. The service recall order is valid if the following points are fulfilled:
   - The status of the selected product service letter is *Released*.
   - The order date is within the validity period of the product service letter's date.
   - The sold-to party is entitled to make a claim for the product service letter.
3. After the data entered has been validated, the system automatically creates the corresponding order items, which are not invoiced, in the service recall order. The quantities for each of the items in the service recall order are calculated by multiplying the quantity for each of the items in the sales order template by the number of objects entered in the service recall order. The order items are only copied once for a given product service letter. If you add or remove objects, the system redetermines the quantities accordingly. You are allowed to reduce the quantity. If you want to reduce the quantity determined by the system, the determined quantities are overwritten by the quantities entered manually.
4. The system checks the products and quantities.
5. The customer posts the service recall order.
6. The system updates the status of the objects in the product service letter.

Self Assessment

State whether the following statements are true or false:

4. An object is a special product.
5. An object is a non special product.
6. Recalled parts that are still in the customer's stock are processed in a separate returns process.
7. The manufacturer runs product analyses, and discovers that repeated complaints point to a defective part as the cause of a problem.
8. To guarantee delivery of the service parts, you create a sales order template.
9. The sales order template excludes a list of the parts to be exchanged, and the required quantity for each object.
10. The customer receives the message about the recall action via his or her chosen communication channel, for example e-mail.

Caselet

Delivering a Superior Customer Experience

The reputation of a business may be affected by what its customers think and say about its products or services. This is driven by the experience of customers when dealing with the business. High quality customer service will encourage customers to become regular or repeat users or purchasers. On the other hand, a poor customer experience may damage a business through loss of consumer confidence.

TNT was founded in Australia in 1946 by Ken Thomas with a single truck. Today, TNT is a global business and the market leader in business-to-business (B2B) express delivery

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services, delivering up to 150 million items per year. It has the largest individual share of the national market and employs over 10,000 people across the UK and Ireland. TNT operates in the tertiary (or service) sector of the economy which provides widely varying services to other businesses and to consumers. The tertiary sector is the largest sector of the UK economy, ahead of the primary (extraction) and secondary (manufacturing) sectors.

The Customer Promise

In 2008 TNT recognised that the increasing expectations of customers meant the business had to make major changes to ensure it could meet their needs. In-depth research showed that customer satisfaction depended not just on the process of delivering the service, but also on how the service was carried out. This resulted in TNT adopting a core strategy focused on delivering a quality customer experience. It developed a two-year programme to implement and communicate its Customer Promise to employees and customers.

In order to achieve the levels of process innovation and continuous improvement that the customer focus strategy required, TNT also needed to ensure the capabilities of its people were aligned to this, particularly in delivering a high quality customer experience. A review of new employees to the company showed that only 10% held qualifications above QCF (Qualifications and Credit Framework) level 2, compared to the industry norm of 52% (as identified by Skills for Logistics Research).

Source: http://businesscasestudies.co.uk/tnt/delivering-a-superior-customer-experience

12.3 Loyalty Programs for a Store

Loyalty programs are structured marketing efforts that reward, and therefore encourage, loyal buying behaviour – behaviour which is potentially beneficial to the firm.

A customer loyalty program is a structured and long-term marketing effort which provides incentives to repeat customers who demonstrate loyal buying behaviour.

Successful programs are designed to motivate customers in a business's target market to return often, make frequent purchases, and shun competitors. In retailing, these programs generally reward loyal customers with discounts, special offers, rebates, points, or prizes.

Notes

Task Design a customer service program for a reputed mall. Also state the ways to improve it.

It seems that virtually every retailer tries to reward loyal customers these days. The number of such programs at places like Target, Cub Foods and Best Buy has soared over the past decade. And most shoppers eagerly sign up for the programs, looking to save money wherever and whenever they can.

"Loyalty programs have retained customers," he said. "It's a way of recognizing valuable consumers, and providing them with more value and greater benefit for shopping with your store." Companies certainly covet the data they can harvest from loyalty programs, using it to better understand customers and refine marketing and sales efforts. "The whole point is to connect with your customers, and make you the first choice and top of mind."

Notes In marketing generally and in retailing more specifically, a loyalty card, rewards card, points card, advantage card, or club card is a plastic or paper card, visually similar to a credit card or debit card that identifies the card holder as a member in a loyalty program. Loyalty cards are a system of the loyalty business model. In the United Kingdom it is typically called a loyalty card, in Canada a rewards card or a points card, and in the United States a discount card, a club card or a rewards card. Cards typically have a barcode or magstripe that can be easily scanned, and some are even chip cards. Small key ring cards (also known as key tags) which serve as key fobs are often used for convenience in carrying and ease of access. Retail rewards programs are about engaging guests.

By presenting the card, the purchaser is typically entitled to either a discount on the current purchase, or an allotment of points that can be used for future purchases. Hence, the card is the visible means of implementing a type of what economists call a two-part tariff.

Application forms usually entail agreements by the store concerning customer privacy, typically non-disclosure (by the store) of non-aggregate data about customers. The store uses aggregate data internally (and sometimes externally) as part of its marketing research. These cards can be used to determine, for example, a given customer's favourite brand of beer, or whether he or she is a vegetarian.

Where a customer has provided sufficient identifying information, the loyalty card may also be used to access such information to expedite verification during receipt of cheques or dispensing of medical prescription preparations, or for other membership privileges (e.g., access to a club lounge in airports, using a frequent flyer card).

On-line loyalty programs: Recently there has been a move away from traditional magnetic card, stamp or punchcard based schemes to online loyalty programs. While these schemes vary, the common element is a push toward eradication of a traditional card, in favour of an electronic equivalent. The choice of medium is often a QR code. One prominent example is the US-based Punchd, which became part of Google in 2011. Others, like MazeCard, have offered similar programs in other continents.

Disloyalty cards: In three cities, some independent coffee shops have set up experimental 'disloyalty card' programs, which reward customers for visiting a variety of coffee shops.

Did u know? Neiman Marcus is credited with creating the first customer loyalty program in the retail industry, which is called "InCircle."

Notes

Criticism

Companies complain that these loyalty program discount goods to people that are buying their goods anyway, and that the expense of doing these programs rarely pays. Other critics see the lower prices and rewards as bribes to manipulate customer loyalty and purchasing decisions, or in the case of infrequent-spenders, a means of subsidizing frequent-spenders. Commercial use of the personal data collected as part of the programmes has the potential for abuse. It is highly likely that consumer purchases are tracked and analyzed towards more efficient marketing and advertising; in fact, this can be one of the purposes of the loyalty card. To some, participating in a loyalty program (even with a fake or anonymous card) funds activities that violate privacy. There has also been concern expressed regarding RFID technology being introduced to loyalty cards.

Lab Exercise Go to website http://www.consumercomplaints.in/complaints/big-bazaar-c50930.html and study the extent of customer service. Analyze and interpret it.

Loyalty and credit-card reward plans may be viewable as modern-day examples of a kickback. An employee who needs to buy something (such as a hotel room or an airline flight) for a business trip, but who has discretion to decide which airline or hotel chain to use, has an incentive to choose the payment method that provides the most credit card rewards or loyalty points, instead of minimizing cost for the organization.

Self Assessment

Fill in the blanks:

11. ..... are structured marketing efforts that reward, and therefore encourage, loyal buying behaviour – behaviour which is potentially beneficial to the firm.
12. A ..... is a structured and long-term marketing effort which provides incentives to repeat customers who demonstrate loyal buying behaviour.
13. Successful programs are designed to ..... customers in a business's target market to return often, make frequent purchases, and shun competitors. In retailing, these programs generally reward loyal customers with discounts, special offers, rebates, points, or prizes.
14. It seems that virtually every retailer tries to ..... loyal customers these days.
15. Loyalty and credit-card reward plans may be viewable as modern-day examples of a .....

Case Study

The Importance of Customer Service

Introduction

Customer service is the whole activity of identifying customer needs in all their complexity, satisfying them fully, and keeping them satisfied. Customers are people who buy products and services from other people (usually companies of one sort or another).

Contd....

Notes

This Case Study shows how Homebase, one of this country's best known retail chains, places customer service at the heart of its values, demonstrating practical examples of how customer service can be applied to the benefit of shoppers.

Homebase became part of Argos Retail Group (ARG) in November 2002. Homebase is No. 2 DIY retailer in the UK. It serves 1.5 million customers weekly in nearly 300 stores countrywide. For more than two decades, consumers – and businesses – have trusted Argos and Homebase to provide consistently top-quality products at competitive prices.

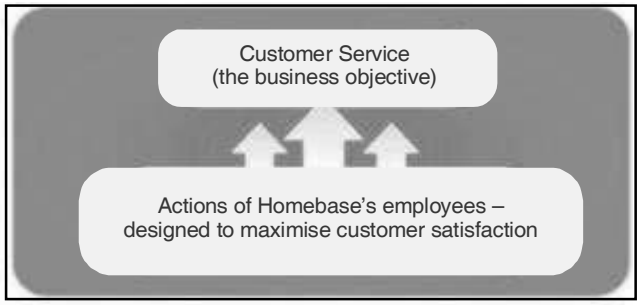
Today, Homebase offers more than DIY; it is a contemporary home and lifestyle store. Customers can choose from thousands of products. There is everything you would expect and more – for example, practical yet stylish furniture and exclusive, designer-led product lines such as the Linda Barker range of bed linen and wallpapers.

The acquisition of Homebase was an important step for ARG as part of an overall strategy of growing the business, including building up a bigger customer base through customer service.

Culture

The culture of an organisation is the way that it and its people behave. For example, when you enter a Homebase store you should immediately be able to get a feel for this culture because the people who work there as they create a warm and friendly atmosphere. This is not surprising because Homebase has deliberately created a customer focused culture.

The culture of an organisation is strongly influenced by senior managers. The culture developed, is shaped by their attitudes and the systems and patterns of behaviour that they encourage. When ARG took over Homebase it focussed on developing a senior management team with the capability to deliver a customer facing culture.



Homebase's business objectives place great importance on providing customer service. The actions of staff are then aligned (put into line) with meeting this objective by providing customers with the best possible shopping experience.

An organisation needs to set out and communicate a set of values for its people, so they know what to do and how to act. Homebase's values are:

- We put the customer first.
- We succeed through teamwork.
- We make it easy.
- I make a difference.

Contd....

Notes

Such values provide clear guidelines, which give basic operating principles for the way in which Homebase people can and should behave.

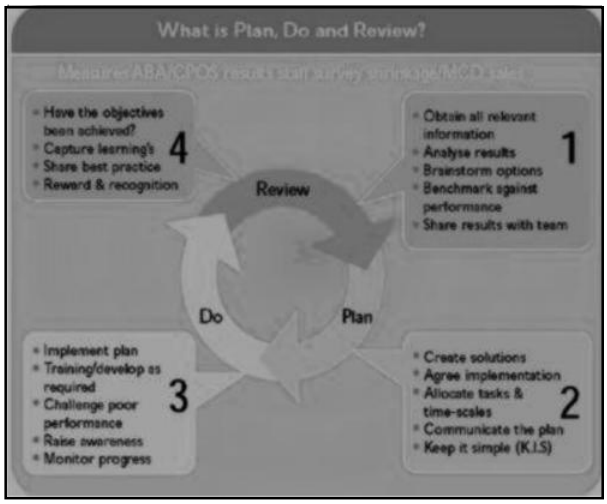
The values are also highly motivating because they place a strong emphasis on teamwork and the role that individuals play in teams. This is demonstrated by the Homebase Retail Staff Award and the Homebase Recognition Award – see sections 04 and 05 for more details.

Homebase gives further guidance to its employees on appropriate behaviour, by setting out the following guidance in so called 'Buzz sessions' (teamwork training sessions):

- The customer is our No. 1 priority.
- Look after our customers and they will look after us.
- Everything we do must benefit the customer.
- Treat customers as you would expect to be treated yourself.
- Listen to our customers and go the extra mile.
- We never want any customer to have a wasted journey.

Building an Improvement Strategy

An organisation's strategy is the plan to achieve desired objectives. A continuous improvement strategy is one that involves constantly seeking to make improvements, however small.



The organisation that continually makes improvements keeps ahead of its rivals. Homebase emphasises continuous improvement – seeking to identify and then deliver new and better ways of meeting customer needs. The review/plan/do approach is used at every level in the Homebase organisation.

The review stage involves looking at current performance, identifying what the organisation and its people need to keep doing and what needs to be changed.

The planning stage involves first being clear about what should be achieved and then organising thoughts, actions and people. Planning is systematic rather than a random process and must be fitted into a clear time frame.

Finally, the do stage, involves carrying out the plan. The skills of the organisation and its people must be organised to make each part of the plan work. Once the plan is being

Contd....

Notes

implemented it is possible to carry out further review stages – creating a further improvement cycle.

The next stage of review therefore is to:

- compare what was achieved (results) against the plan
- decide what the organisation and its people would do again/not do/do differently
- include these decisions in future plans

The *review/plan/do* cycle helps Homebase to achieve results and drives continuous improvement. It embeds the values of the organisation in every one of its stores. It is important to have a clear sense of direction. Time spent in planning is time well spent. Reviewing is important, if ongoing improvements are to be made.

The Importance of Customer Service Research

Homebase places much emphasis on customer service. To improve this, it is essential to have a clear picture of what customers expect. There are two main types of customer research.

Quantitative Research

This involves collecting information from an appropriate sample of shoppers to find out what their views are about Homebase and the customer service that it offers. An important source is a postal survey which Homebase conducts amongst a sample of Spend & Save loyalty card holders. This is done three times a year to gauge satisfaction with, and loyalty to, Homebase.

The survey allows Homebase to monitor satisfaction over time and highlight any areas that may be causing customers problems. Homebase is then able to analyse the frequency of problems relating to store customer service, and other details such as product range and delivery service.

Qualitative Research

This typically involves smaller scale research about values and views rather than hard facts. For example, qualitative research involves interviewing small groups of customers to find out what their views are of customer service at Homebase.

Another, important approach which uses both qualitative and quantitative analysis is the Mystery Shopping Programme. Homebase conducts a monthly programme of mystery shopping. All stores are measured on three key areas.

1. ***Store standards*:** Presentation of the store and its staff.
   - Is the store well maintained?
   - Does the store make it easy for customers to shop?

Contd....

Notes

- Is sufficient staff available to help?
- Is the staff approachable?

2. ***Enquiry service:*** Are colleagues offering the right level of service to customers if they have a query?
   - Do staff members greet customers?
   - Do they take customers to the relevant aisle?
   - Do they stay with customers until they have what they need?
3. ***Goodbye and lasting impressions:*** Do customers leave with a strong impression?
   - Are sufficient tills open to fulfill demand?
   - Are customers greeted in a friendly manner?
   - Is the transaction processed smoothly?

The Mystery Shopping Programme is a key tool for stores to use to improve the service they offer to customers. Scores achieved by a store also act as the trigger for the Homebase Retail Staff Award; a quarterly bonus scheme paid to store staff achieving certain criteria. Additionally they count towards the management annual bonus scheme.

Using a range of research tools to find out about customer satisfaction is important to Homebase. For example, different Mystery Shoppers will visit stores over a period of time and the results will be compared. In addition the results of customer surveys can be compared and contrasted with the results provided by Mystery Shopper Reports.

Empowering Staff to Plan and do

Empowerment is the process of giving greater responsibility to everyone that works for an organisation - it literally means giving power to make decisions. Empowering members of an organisation is a tremendous motivational tool because they feel that they are contributing, through their own initiative, to improving performance and achieving better results.

Homebase employs a teamwork approach in which everyone counts and adds value to their team. All employees are given an opportunity to voice their ideas and opinions. At Homebase employees are organised into teams with a team leader. Team meetings are held on a regular basis called 'huddles'. Huddles frequently involve team building exercises and fun activities such as quizzes and competitions (such as trolley dashes to locate stock in a store).

In addition the huddle is a way of encouraging everyone to contribute to developing ideas for improving processes within the business. For example, the team leader may identify an area of weakness that has come to light as a result of a visit by a Mystery Shopper or from the customer satisfaction survey. The team leader might read out comment cards or relay verbal comments. Individuals are then invited to suggest ways of improving customer service in the coming week. Team members are encouraged to suggest ideas for a range of ways to improve business such as how to improve sales, and general processes.

Senior managers at Homebase recognise the importance of empowerment because grassroots employees are best placed to understand and be able to respond to the needs of customers at a local level – for example by being able to cater for regional differences. Empowering staff involves encouraging employees to make appropriate 'on-the-spot' decisions such as offering to help a customer take and unload a trolley of goods to their

Contd....

Notes

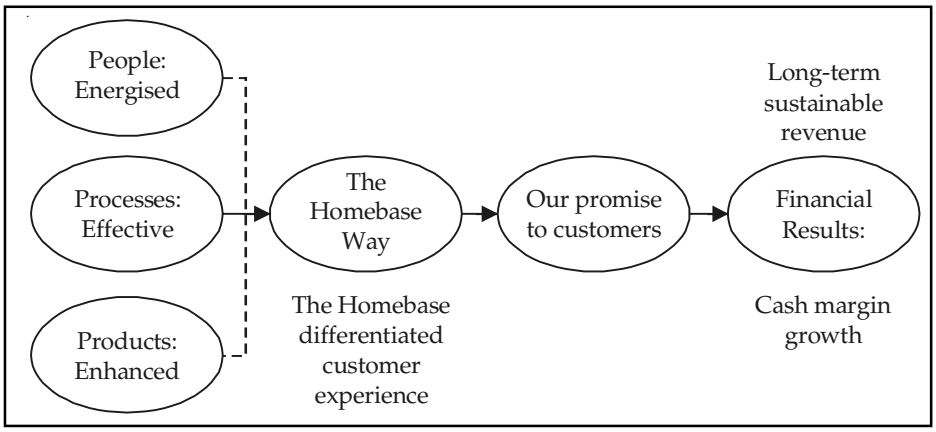
car, or replacing product labels on products when they are missing (without having to wait to be told what to do).

The general philosophy of Homebase's teamwork approach for employees is called 'I make a difference' and is that they should:

- take personal responsibility
- have a 'can do attitude'
- if something isn't right, do something about it – don't leave it to someone else
- confidently own every situation and deal with it
- give praise and recognise everyone's contribution

In addition staff may receive one of the Homebase Recognition Awards. These are awarded to staff for going above and beyond the call of duty in delivering customer service and living the values, the awards are bronze – star, silver – hero and gold – legend, which is the ultimate achievement with only 16 gold awards across the entire company, each award winner receives a certificate, limited edition pin badges and leisure vouchers which can be used in a variety of outlets.

Empowered employees have much higher levels of motivation, they enjoy their work, and their loyalty to and pride in Homebase is enhanced. Highly motivated employees in turn will help the organisation to achieve its objective of putting the customer first.



Of course, as a business, Homebase is best placed to create the high financial returns that shareholders in the company are looking for. This inter-relationship between people, processes and products to the benefit of the customer is illustrated by the Homebase Roadmap.

Conclusion

Contd....

Notes

Homebase is committed to customer service. Customer service lies at the heart of our modern economy because we increasingly make choices on the basis of how we are served.

Excellence in customer service can only be fully achieved by having an organisational culture and value system which places the customer at the heart of everything that an organisation and its people do.

Homebase has embedded this culture of customer service by giving high priority to a customer service emphasis from top management right down to the operational team level. At the heart of a continuous improvement cycle is the review/plan/do cycle which provides a tool for improving customer service at every level within the organisation.

Questions:

1. Analyze the case and interpret it.
2. Write down the case fact.
3. What do you conclude from it?

Source: http://businesscasestudies.co.uk/homebase/the-importance-of-customer-service

12.4 Summary

- The customer service job description gives you a good understanding of the tasks, responsibilities and skills involved in customer service work.
- Although customer service jobs vary according to sector, the company and the level of the position the fundamental job requirements remain constant.
- The exchange process of defective products enables you to execute recall actions between the manufacturer and the customer, for defective parts of an object to be exchanged with service parts.
- An object is a special product, for example, a car or a computer.
- You use this process to offer your customer a defined list of service parts and the maximum permitted quantities for each object.
- The manufacturer runs product analyses, and discovers that repeated complaints point to a defective part as the cause of a problem.
- Customers are notified via a product service letter.
- Loyalty programs are structured marketing efforts that reward, and therefore encourage, loyal buying behaviour – behaviour which is potentially beneficial to the firm.
- A customer loyalty program is a structured and long-term marketing effort which provides incentives to repeat customers who demonstrate loyal buying behaviour.
- Successful programs are designed to motivate customers in a business's target market to return often, make frequent purchases, and shun competitors.
- In retailing, these programs generally reward loyal customers with discounts, special offers, rebates, points, or prizes.

12.5 Keywords

Customer: A customer (also known as a client, buyer, or purchaser) is the recipient of a good, service, product, or idea, obtained from a seller, vendor, or supplier for a monetary or other valuable consideration.

Notes

Customer loyalty program: A customer loyalty program is a structured and long-term marketing effort which provides incentives to repeat customers who demonstrate loyal buying behaviour.

Customer service: Customer service is the provision of service to customers before, during and after a purchase.

Customer service job description: The customer service job description gives you a good understanding of the tasks, responsibilities and skills involved in customer service work.

Defective Products: Consumable, commercially produced and distributed good that is (1) unfit for its intended use, (2) dangerous or harmful for normal use, (3) does not carry adequate instructions for its use, or (4) is inherently dangerous due to defective design, assembly, or manufacture are called defective products.

Loyalty: Loyalty is faithfulness or a devotion to a person, country, group, or cause.

Loyalty programs: Loyalty programs are structured marketing efforts that reward, and therefore encourage, loyal buying behaviour – behaviour which is potentially beneficial to the firm.

On-line loyalty programs: These schemes vary; the common element is a push toward eradication of a traditional card, in favour of an electronic equivalent. The choice of medium is often a QR code.

12.6 Review Questions

1. Define customer service job description?
2. What are the contents of customer service job description?
3. What are defective products?
4. How are defective products produced?
5. Discuss exchange of defective products.
6. What is meant by loyalty of a product?
7. Describe loyalty programs for a store.
8. What is customer loyalty program?
9. What is online loyalty program?
10. Discuss the importance of customer service research.

Answers: Self Assessment

1.	job description	2.	remain constant
3.	Interact	4.	True
5.	False	6.	True
7.	True	8.	True
9.	False	10.	True
11.	Loyalty programs	12.	customer loyalty program
13.	motivate	14.	reward
15.	kickback		

Notes

12.7 Further Readings

Books

Berman, B. & Evans, J. R., (2004), *Retail Management*, 9th Edition, Pearson Education

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Menon, K. S., (2006), *Stores Management*, 2nd Ed. Macmillan India

Sivakumar, A., (2007), *Retail Marketing*, Excel Books, New Delhi

Online links

doit.maryland.gov/support/Pages/ServiceDesk.aspx

https://www.descartes.com/resources/services.../customer-service-desk

www.dataviz.com/customerservice/index.html

www.library.nuigalway.ie/contactus/customerservicesdesk/-

Unit 13: Different Fixtures Available for a Retail Store

Notes

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Objectives

Introduction

13.1 The Purpose of Planning Fixtures

13.2 Fixture Planning

13.3 Types of Fixtures

13.4 Summary

13.5 Keywords

13.6 Review Questions

13.7 Further Readings

Objectives

After studying this unit, you should be able to:

- Define fixturing
- Discuss the purpose of planning fixtures
- Describe different types of fixtures

Introduction

Fixturing is necessary to display merchandise to customers, whilst making best use of the retail space. Fixtures can be obtained from a shopfitting wholesaler, or they may be custom-built to tie into a specific retail design. The following fixtures are commonly found in retail stores: shelving, gondolas railings, four-ways, round fixtures, bins, baskets and tables. The type of fixturing used will depend on the product and its presentation method.

In order to create a consistent look within the outlet, it is sensible to choose fixturing that is coordinated in terms of the type of material and style. An array of different types of fixturing may provide flexibility, but it can make a store appear cluttered and untidy. It is generally the merchandise rather than the fixturing that should be noticed, although some fashion stores do use unique designs for fixtures that help to reinforce the retail brand image.

In this unit, we will discuss different fixtures available for a retail store.

13.1 The Purpose of Planning Fixtures

Setting the standard in superior custom Retail Store Fixtures design, innovation and quality, AFL Display supports brand image in the most provocative way possible.

Examples of custom Retail Store Fixtures includes:

- Acrylic Fixtures
- Wood Fixtures
- POP Displays

Notes

- Kiosk Displays
- Spinner Displays

In this age of easy Internet purchasing and one-stop shopping, retailers & product merchandisers need to do everything they can to attract shoppers, maintain an edge over competitors and increase the potential for sales. AFL Display Group located in Toronto has more than 20 years of experience creating high-impact retail environments for companies of all sizes through superior customer service, design innovation and manufacturing excellence. One of the few companies adept at integrating multiple materials, AFL Display boasts the broadest range of Custom Retail Store Fixtures and display options anywhere – from simple displays to retail stores.

Figure 13.1: Fixture

Source: http://www.afldisplay.com/

Fixturing is generally concerned with the housing of merchandise in what is sometimes termed 'on-shelf' displays. This is the routine display of goods from which customers are expected to make their selection.

Caution Fixture planning is a complex activity restricted by the extreme diversity of workpieces and several environmental factors including machine tools, assembly tools, grasping devices, and cutting tools.

Various methods and techniques are used for the geometry analysis of fixture feasibility in product development. Fixture synthesis methods including geometrical analysis and fixture assembly planning are surveyed. The implementation of CAD-based and Web-based fixture planning systems is discussed in respect to their reasoning methods, functionality, limits and potentials. A novel fixture planning system is proposed and further research activities are identified.

Did u know? Fixture planning determines precise locating and rigid clamping of a workpiece according to workpiece's design and process requirements.

The locating planning chooses surfaces on the workpiece as locating planes and selects suitable fixture components for locating these surfaces. Locating surfaces are classified as plane, pin-hole and external profiles.

Notes

13.2 Fixture Planning

The fixture planning requires workpieces and machining information including geometry, material, dimension and tolerance, processing plan and tool path. To hold a specific part, several design constraints may be applied. Among them, four main constraints in the fixture planning are as follows:

1. ***Geometrical constraints:*** Accurate locating of a workpiece should be ensured to meet machining accuracy requirements of a workpiece.
2. ***Accessibility constraints*:** There should be no interference among fixture components, workpieces, and machining tools during assembly and machining. In addition, it should be easy to load and unload the workpiece.
3. ***Force constraints:*** The fixture should be strong enough to resist the forces and moments produced by clamps and machining tools. A minimum clamp force should be specified for the workpiece stability.
4. ***Deformation constraints*:** The stiffness of a fixture system should be sufficient to keep the workpiece deformation within the design tolerance.

Commonly used fixture locating methods include:

(1) 3-2-1 point locating for prismatic workpieces, it uses three locators on the primary locating surface, two locators on the secondary locating surface, and one locator on the tertiary locating plane;

(2) one plane and two pins locating for general parts with two holes. It uses a primary locating plane, a primary pin, and a secondary pin to restrict the freedom of a workpiece;

(3) V-block locating for external cylindrical parts. One wide V-block or two short V-pads may be used to hold the workpiece. The clamping methods can be summarized as top clamping and side clamping. It is usually used to restrict a workpiece's movement to keep it stable during processing. The clamping planning determines clamping surfaces and points on the workpiece and clamping components, the magnitude of each clamping force, and the clamping sequence when the stability of the workpiece becomes a concern. Some locating and clamping variations may be applied for different part geometrical and processing requirements. Fixture assembly planning determines the fixture assembly sequence and assembly tools used. It can also verify the possible interference of fixture components and workpieces in an assembly process, and the ease of workpieces loading and unloading.

Notes CAFP can be divided into four phases: problem description, fixture analysis, fixture synthesis, and fixture verification. The problem description defines fixture design variables, design constraints and design objectives. In the fixture analysis, a workpiece-fixture interaction model is built in terms of geometry, kinematics, force, and deformation. The analysis result is then used to select the locating, supporting and clamping surfaces and points on the workpiece. The fixture synthesis determines details of the fixture configuration including selecting fixture elements, placing the elements in suitable locations, and generating fixture assembly plan. The fixture configuration is verified in respect to geometrical interference, locating determinant, clamp stability and machining tolerance in the fixture verification phase. If design objectives are not satisfied, the result will be sent back to fixture analysis phase for further improvements.

Notes

Self Assessment

Fill in the blanks:

1. Fixturing is generally concerned with the ..... of merchandise in what is sometimes termed 'on-shelf' displays and is the routine display of goods from which customers are expected to make their selection.
2. An array of different types of fixturing may provide ....., but it can make a store appear cluttered and untidy.
3. Fixture planning is a complex activity restricted by the ..... of workpieces and several environmental factors including machine tools, assembly tools, grasping devices, and cutting tools.
4. ..... can be divided into four phases: problem description, fixture analysis, fixture synthesis, and fixture verification.
5. A ..... clamp force should be specified for the workpiece stability.
6. The locating planning chooses surfaces on the workpiece as locating planes and selects suitable ..... for locating these surfaces.
7. Locating surfaces are classified as plane, pin-hole and ..... profiles.

Caselet

Upholstered Retail Store Fixtures

The client referred here are a major wireless phone retailer and this case study is in reference to their operations in the Western United States. They believe that their retail sites directly support and communicate their identity and quality as a company. Maintaining their retail sites is of utmost importance and no expense is spared to communicate this to the public. While delivering this mandate, Facilities is challenged with the reality of high traffic and sometimes downright abuse within the stores.

This clients' commitment to maintaining the highest visibility standard brought them to Patriot's door to create a cost effective program to address the upholstered assets in the 13 western states and Hawaii amounting to over 500 stores. The assets were wearing out. In addition to the established expectations to;

- Reduce operating costs
- Recapture asset value
- Minimize their carbon footprint

The program also had to deliver in the most cost effective manner and had to address the most frequent design failures of the original assets.

Their public commitments to Corporate Social Responsibility do not make it easy on their Facilities Managers to meet the demands to drive down operating costs. Managers were faced with the challenge of developing a cost effective plan that addressed the aging upholstered customer seating and minimized their carbon footprint.

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Any solution would need to include these aspects:

- No effect on retail operations
- A positive ROI
- Reduced carbon footprint
- Tracked and reported accurately

Patriot Logistics offered a complete solution to Verizon Wireless. By implementing a comprehensive replacement program, Patriot was able to replace all the upholstered assets at 50% of the replacement cost of the same assets. Patriot was able to reduce Verizon's carbon footprint by diverting 60,000 Lbs. of material from the landfill. Further, Patriot was able to add injection molded features to double the life of the asset.

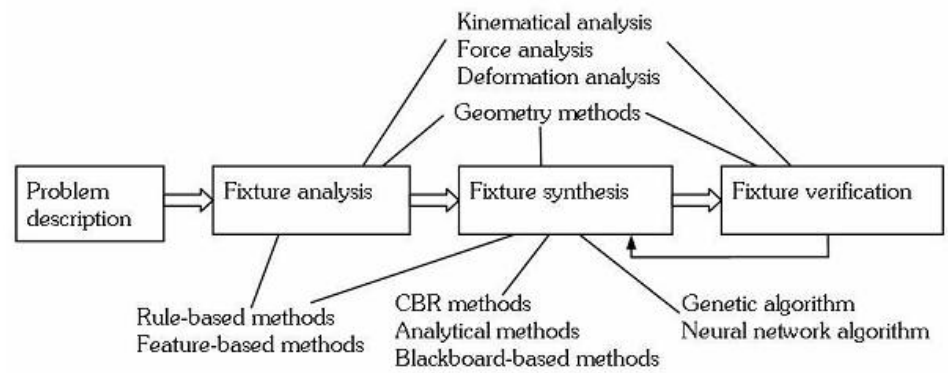
Source: http://patriotadvantage.com/upholstered-retail-store-fixtures/

13.3 Types of Fixtures

Several methodologies have been developed for fixture planning to satisfy various constraints. The main methods in four fixture planning phases are summarized in Figure 13.2.

In the fixture analysis phase, several prominent methods have been developed including geometrical, kinematical, force, and deformation analysis methods, rule-based methods and feature-based methods. The geometrical analysis checks the locating errors and interference among fixture elements, the workpiece and cutting tool paths by spatial reasoning. The kinematical analysis ensures the determinant locating against locating planes, and the easiness of loading/unloading. A sufficient clamp force is determined for static equilibrium under the cutting force based on force analysis. The deformation analysis determines the elastic and/or plastic deformation of the workpiece under the clamping and cutting force, which directly affects the final dimensional tolerance of a workpiece. Finite element analysis (FEA) is usually used for the deformation analysis. Similarly, these methods are used in the fixture verification to justify the generated fixture configuration.

Figure 13.2: Summary of CAFP Approaches



Lab Exercise Go to website http://www.cadanda.com/CAD_5_1-4__424-433.pdf and gather more information on CAFP Approaches

Notes

In the fixture synthesis phase, the locating, clamping, and supporting layout are determined. Various modular fixtures in store planning are:

Figure 13.3: 2-Tier Adjustable Rack Display

Figure 13.4: Abstracta Adjustable Wall Display

Figure 13.5: Abstracta L-shaped Stepped Display

Notes

Figure 13.6: Abstracta Wall Display

Figure 13.7: Cross Merchandising 4-way Display Fixture

Figure 13.8: Eight-Shelf Modular Merchandiser

Notes

Figure 13.9: Island Multi-Merchandiser Display Fixture

From store layout and fixture design through installation, Warehouse Concept's veteran store planning department has the expertise to turn your dream store into a visually attractive shopping experience that your customers will remember.

To say the key to success with any retail establishment is "Location." But once you find that "Location" the battle cry should be "Store Layout." A proper store and plan can mean the difference between profitability and just staying in business. Simply having shelving and racks with product on them is not the definition of a successful store layout.

Task Visit a retail store and observe it effectively. Analyze and interpret it.

How effective is your store layout and does it encourage impulse and tie-in sales? Did any of you customers see the new product that you put out near aisle 20? It is all well and good when customers can run in and get what they need, and leave, but it is the unplanned purchases that your customers make that make you more profitable.

By definition, store layout is the creation of a comfortable shopping environment and a traffic pattern that encourages buying and makes possible the total exposure of all goods available for sale in your store. Let's begin by looking at some of the objectives that a profitable store layout promotes:

1. Encourages the customer to travel throughout the entire store
2. Introduces new goods effectively
3. Leads the customer through high margin merchandise areas
4. Builds impulse sales and promotes step-up sales
5. Makes the customer feel comfortable shopping in your establishment
6. Builds prestige for your store and good will for your customers

Ultimately, these points are what a good store layout is going to accomplish. Successful implementation of all of the objectives will lead to an increase in sales. The three main factors in developing a profitable store layout are Atmosphere, Traffic Flow and Merchandise Prominence. Fixture planning is a complex activity affected by the extreme diversity of workpieces and

Notes

several environmental factors. This will review main methodologies in CAFP. Generally, the fixture planning consists of four phases: the problem description, fixture analysis, fixture synthesis, and fixture verification. Fixture analysis and verification methods are summarized as geometrical analysis, kinematic analysis, force analysis, and deformation analysis. In fixture synthesis, CBR methods, assembly sequence planning methods, and optimization methods are surveyed. The implementation issues in CAD-based CAFP systems, Web-based CAFP systems and information sharing are discussed.

Caution A framework of virtual fixture planning system is subjected to integrate environmental factors into fixture planning process.

Further research will improve approaches for fixture design and fixture assembly motion planning based on VR techniques in respect to environmental factors.

Self Assessment

State whether the following statements are true or false:

8. The kinematical analysis checks the locating errors and interference among fixture elements, the workpiece and cutting tool paths by spatial reasoning.
9. The geometrical analysis ensures the determinant locating against locating planes, and the easiness of loading/unloading.
10. A sufficient clamp force is determined for static equilibrium under the cutting force based on force analysis.
11. The deformation analysis determines the elastic and/or plastic deformation of the workpiece under the clamping and cutting force, which directly affects the final dimensional tolerance of a workpiece.
12. Finite element analysis (FEA) is usually used for the deformation analysis.
13. Store layout is the creation of a comfortable shopping environment and a traffic pattern that encourages buying and makes possible the total exposure of all goods available for sale in your store.
14. Successful implementation of all of the objectives will lead to an reduction in sales.
15. The three main factors in developing a profitable store layout are Atmosphere, Traffic Flow and Merchandise Prominence.

Case Study

Retail Fixtures Logistics

Delivering Store Fixtures was a Major Problem for a Global Apparel Retailer until Axis Implemented a Program that Cut Costs and Increased Efficiency. A well-known global apparel retailer found itself dealing with the growing pains that often accompany rapid success. Business was booming. The company already had about 1100 stores across the United States and was planning to open 50–60 more stores domestically and 15 internationally each year.

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But this major retailer had a major problem on its hands that had nothing to do with the production of fine apparel.

The company found itself struggling to manage an aspect of its business outside of its core competency – namely, the distribution of store fixtures for new store openings and renovations. To accomplish this task, the retailer had been depending on a combination of internal resources and outsourcing.

But this approach clearly was not working. Neither the company itself nor its outside partner had the technology or the processes in place to provide the necessary visibility into the supply chain. The inefficiency that resulted led to late shipments, missing items, no accountability and inflated costs.

The retailer came to the realization that in order to solve this problem it needed to work with a logistics company that had experience and expertise in the retail sector. When it learned about Axis Global Logistics' direct-to-store program, the retailer realized that it had found the right partner. The company understood that this program offers retailers the fastest, most reliable service available and provides them with an overall supply chain solution designed specifically for their industry and their particular business – a solution that will optimize costs and efficiency when dealing with such issues as the delivery and installations of store fixtures for resets, remodels and new store construction.

Axis developed a customized program for this retailer designed to provide a single-source solution and also provided technology that offers complete visibility and cost control. All inventories was managed by Axis' web-based WMS system – which offers complete client access – and all transportation was tracked by the Axis Trak system.

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Specifically, the process that Axis developed for the retailer worked like this:

- Once the client dropped POs to the vendors, Axis communicated with the vendor and coordinated all inbound shipping into Axis' distribution facility
- All items were entered into Axis' WMS system and checked for order accuracy and damage
- As new stores came on-line and were ready for fixtures, Axis coordinated with on-site personnel to establish timing and review manpower needs
- The fixtures were packed, loaded and shipped to the store site
- During transit, the shipment was tracked – the client and store crew had full access to the tracking information
- Upon completion, the client was provided with final proof of delivery along with photographs of the fixtures to document the condition of the fixtures when delivered

The results for the retailer were clear and dramatic. They included:

- Reduced transportation both in inbound and outbound shipping;
- True visibility into the current inventory;
- Less downtime and expense at the store level due to missed or late deliveries;
- No shrinkage of product at the store site;
- Significantly less damage – accountability when damage occurred;
- Reduced man hours on-site as a result of better communication and execution;
- Greater efficiency at the corporate level in managing this program.

As this famous global apparel retailer came to understand and appreciate, Axis Global Logistics' direct-to-store program is the future of retail logistics. Axis can design and

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implement a customized logistics solution that will increase your efficiency and cut your costs.

Questions:

1. Analyze the case and interpret it.
2. Write down the case fact.
3. What do you conclude from it?

Source: http://www.axisg.com/pdf/Axis_RetailCase-web.pdf

13.4 Summary

- Fixturing is generally concerned with the housing of merchandise in what is sometimes termed 'on-shelf' displays.
- This is the routine display of goods from which customers are expected to make their selection.
- Fixture planning is a complex activity restricted by the extreme diversity of workpieces and several environmental factors including machine tools, assembly tools, grasping devices, and cutting tools. Various methods and techniques for the geometry analysis of fixture feasibility in product development.
- Fixture synthesis methods including geometrical analysis and fixture assembly planning are surveyed.
- A novel fixture planning system is proposed and further research activities are identified.
- Fixture planning determines precise locating and rigid clamping of a workpiece according to workpiece's design and process requirements.
- The locating planning chooses surfaces on the workpiece as locating planes and selects suitable fixture components for locating these surfaces.
- Locating surfaces are classified as plane, pin-hole and external profiles.
- CAFP can be divided into four phases: problem description, fixture analysis, fixture synthesis, and fixture verification.
- The problem description defines fixture design variables, design constraints and design objectives. In the fixture analysis, a workpiece-fixture interaction model is built in terms of geometry, kinematics, force, and deformation.

13.5 Keywords

***3-2-1 point locating for prismatic workpieces*:** It uses three locators on the primary locating surface, two locators on the secondary locating surface, and one locator on the tertiary locating plane.

***Fixture*:** A fixture is a work-holding or support device used in the manufacturing industry.

Fixture planning: Fixture planning is a complex activity restricted by the extreme diversity of workpieces and several environmental factors including machine tools, assembly tools, grasping devices, and cutting tools.

Notes

Fixturing: Fixturing is generally concerned with the housing of merchandise in what is sometimes termed 'on-shelf' displays.

One plane and two pins locating for general parts with two holes: It uses a primary locating plane, a primary pin, and a secondary pin to restrict the freedom of a workpiece.

Store Layout: Store layout is the creation of a comfortable shopping environment and a traffic pattern that encourages buying and makes possible the total exposure of all goods available for sale in your store.

V-block locating for external cylindrical parts: One wide V-block or two short V-pads may be used to hold the workpiece.

13.6 Review Questions

1. Define the term fixturing.
2. What are fixtures?
3. Why Fixturing is necessary?
4. What are the various types of fixtures do you know?
5. What is a fixture planning?
6. What is meant by point locating?
7. What is 3-2-1 point locating?
8. What is V-locating?
9. What does FEA stand for?
10. What is the significance of FEA?

Answers: Self Assessment

1.	housing	2.	flexibility
3.	extreme diversity	4.	CAFP
5.	Minimum	6.	fixture components
7.	external	8.	False
9.	False	10.	True
11.	True	12.	True
13.	True	14.	False
15.	True		

13.7 Further Readings

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Unit 14: Contemporary Issues in Store Management

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Objectives

After studying this unit, you should be able to:

- Define legal and ethical issues in retailing
- Discuss copyright
- Describe trademark
- Elaborate on careers in retailing
- Explain online retailing

Introduction

Retail innovation impacts the entire marketing channel, from manufacturers to retail employees, franchisors to international distributors, and Internet marketers to final consumers. Increased global expansion, a reemphasis on relationship building, and the explosive growth of e-commerce have transformed all facets of retailing. An era of new relationships among consumers, retailers, and their partners is emerging. Global markets and innovative forms of multichannel retailing demand a fresh look at the dynamics of today's retailing environment. By simultaneously extending their brands, their retail channels, and their markets, retailers create new ways of developing and evaluating strategies.

For instance, consumers in a growing number of global markets now choose between local, national, and global brands. As a result, consumers establish preferences based on the countries-of-origin and country-specific characteristics of products that retailers carry. Fundamentally, country-specific brands can represent many things to consumers in various emerging global

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markets, including gaining desired status, emulating other cultures, or forming strong allegiances to a specific brand. Retailers need to understand these emerging consumer perceptions, especially in markets that are undergoing rapid change.

In this unit, we will discuss legal and ethical issues. We will also focus on online retailing.

14.1 Legal and Ethical Issues in Retailing

There can be a variety of ethical and legal issues regarding retailing, some of which are as under:

- Illegal use of brand name – A retailer must obtain proper confirmation from the parent company for selling a specific brand name.
- Large retailers can impose their unfair terms on the suppliers, which is unethical.
- Retailers can charge undue profit margins on sale of brands without conveying the profits to the company, harming the interest of the manufacturer as well as the customer, which is illegal.

Caution The legal issues will vary according to what country you are in. Ethical issues are more general and would include things like not getting supplies from an unethical source, being honest with the customer etc.

Now-a-days Internet has important ethical connotations for retailing. Positive use of the Internet to publicise retailers' social responsibility contrasts with questionable exploitation of the Web's anonymity. The Net not only offers freedom of speech, but also widens opportunities for irresponsible activity, with low barriers to entry. Thus tensions exist between rights and freedoms, on the one hand, and abuses of freedoms, provoking calls for regulation, on the other. Ethical issues relating to e-commerce are identified, and privacy is highlighted both as central to the ethics of e-retailing and as a critical factor in its development. While retail interest in the Internet thus far has focused around e-commerce, impacts on retailer image – both positive and negative – should also be recognized.

14.1.1 Copyright

Copyright is a legal concept, enacted by governments, giving the creator of an original work of authorship exclusive rights to control its distribution, usually for 70 years after the author's death, after which the work enters the public domain. Generally, it is "the right to copy", but it usually provides the author with other rights as well, such as the right to be credited for the work, to determine who may adapt the work to other forms; who may perform the work; who may financially benefit from it; and other, related rights. It is an intellectual property form (like the patent, the trademark, and the trade secret) applicable to any expressible form of an idea or information that is substantive and discrete. Copyright was initially conceived as a way for governments in Europe to restrict printing; the contemporary intent of copyright is to promote the creation of new works by giving authors control of and profit from them.

Did u know? Copyright has been internationally standardized, lasting between fifty to a hundred years from the author's death, or a finite period for anonymous or corporate authorship; some jurisdictions have required formalities to establishing copyright, most recognize copyright in any completed work, without formal registration. Generally, copyright is enforced as a civil matter, though some jurisdictions do apply criminal sanctions.

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Most jurisdictions recognize copyright limitations, allowing "fair" exceptions to the author's exclusivity of copyright, and giving users certain rights. The development of the Internet, digital media, computer network technologies, such as peer-to-peer file sharing, have prompted reinterpretation of these exceptions, introduced new difficulties in enforcing copyright, and inspired additional challenges to copyright law's philosophic basis. Simultaneously, businesses with great economic dependence upon copyright have advocated the extension and expansion of their copy rights, and sought additional legal and technological enforcement.

Copyright Protection in India

India has one of the most modern copyright protection laws in the world. Major development in the area of copyright during 1999 was the amendment to the Copyright Act of 1957 to make it fully compatible with the provisions of the TRIPS Agreement. Called the Copyright (Amendment) Act, 1999, this amendment was signed by the President of India on December 30, 1999 and came into force on January 15, 2000.

The earlier 1994 amendment to the Copyright Act of 1957 had provided protection to all original literary, dramatic, musical and artistic works, cinematography, films and sound recordings. It also brought sectors such as satellite broadcasting, computer software and digital technology under Indian copyright protection. The Copyright Act is now in full conformity with the TRIPS obligations.

Consequent to the number of measures initiated by the government, there has been more activity in the enforcement of copyright laws in the country during the last year compared to previous years. This reflects the general improvement in the enforcement of the copyright law.

14.1.2 Trademarks

"Trademark is a mark or symbol used by a trader in association with specific goods manufactured and or sold; mark may be a symbol of reputation of some kind in the goods for its origin or quality or both."

"The Brand name, Label or Logo of a company can be registered as a Trademark. Once it is registered then it is protected against misuse by the third parties. The Registered Trademark is a valuable property, which can be transferred or sold or licensed to third parties."

In India, The Trademarks Act, 1999 governs this and the law encourages registration of Trademarks, as registration confers on the owner an exclusive right to use the mark.

Service Mark: The Trademarks Act provided the facility to register marks for services as well as goods. Services has been defined to mean a service of any description which is made available to potential users and includes the provision of services in connection with business in any industrial or commercial matter, such as banking, communication, education, finance, insurance, real estate, transport, storage, material treatment, processing, supply of energy, lodging, entertainment, construction, repair, conveyance of news and advertising.

Certification Trademarks: Certification trademarks are those that are capable of distinguishing the goods or services in connection with which it is used in the course of trade and which are certified by the proprietor with regard to their origin, material, method of manufacture, the quality or other specific features.

Collective Trademarks: Collective trademarks are registered in the name of groups, associations or other organizations for the use of members of the group in their commercial activities to indicate their membership of the group.

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Duration of Registration: The registration of Trade Mark is valid for 10 years. An application for the renewal of registration of a Trade Mark shall be made on the form along with prescribed fee at any time not more than 6 months before the expiration of the last registration.

Legal Benefits (Infringement and passing off): In a suit alleging trademark infringement or passing off, a court may grant an injunction; award damages; direct an account of profits to be produced; or issue an order requiring delivery of the infringing labels and marks of destruction or erasure. Additionally, in respect of an infringement or passing off action, a court can grant an expert injunction along with an interim order for discovery of documents, preservation of infringing goods or other evidence. Furthermore, the court can restrain the defendant from disposing of or dealing with assets in a manner which may adversely affect the plaintiff's ability to recover damages or avail any other pecuniary remedies that may be finally awarded to the plaintiff in the suit.

The TM Act has brought in criminal remedies over and above the civil remedies that were previously available. It has also given more powers to the courts. As a result, applying false trademarks or trade descriptions and selling goods or providing services with such descriptions is a cognizable offense under the TM Act. Any police officer, not below the rank of a Deputy Superintendent of Police or his equivalent, can search and seize the articles bearing infringing trademarks, labels, etc., without warrant. Further, the TM Act has enhanced the punishment for these offenses.

An offender can be imprisoned for a term of not less than six months up to a maximum of three years. Moreover, a fine between ₹ 50,000 (US $ 1,111) and ₹ 200,000 (US$4,444) can be levied. In respect of subsequent offenses, the imprisonment term can be increased to not less than one year and up to three years, and the fine can be increased to not less than ₹ 100,000 (US$2,222) and up to ₹ 200,000 (US$4,444). However, the court has the discretion to reduce the punishment below the prescribed minimum.

Self Assessment

Fill in the blanks:

1. ..... is a legal concept, enacted by governments, giving the creator of an original work of authorship exclusive rights to control its distribution, usually for 70 years after the author's death, after which the work enters the public domain.
2. Copyright is an intellectual property form (like the patent, the trademark, and the trade secret) applicable to any expressible form of an idea or information that is ..... and .....
3. A trademark is a sign of .....
4. The registration of Trade Mark is valid for ..... period.

Caselet

Legal and Ethical Issues

Retailers have realized the advantages of reflecting an ethical sense in business operations. The organizational environment plays a major role in the kind of ethical sense the employees possess. Retailers are trying to ensure that their employees behave ethically. Though there are many laws influencing the business

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environment of the retailer, there are many more aspects that come under the purview of ethics. These aspects concern the merchandise buying and selling practices in the firm. Retailers also need to be socially responsible and environmentally concerned. They often undertake activities that are beneficial to the society. Retailers are also taking measures for waste reduction, trying to recycle the materials used and are switching over to environment friendly packaging materials.

Legislation governs the retail firm's operations and relations with its channel partners. There are certain laws which govern the retailer's relations with suppliers, competitors, consumers and employees. Legal restrictions are imposed on practices concerning pricing, product, promotion, distribution, trademarks and HR policies.

Source: http://www.icmrindia.org/courseware/Retail%20Management/Ethical-Legal%20Issues-Retailing.htm

14.2 Careers in Retailing

The retailing industry is becoming a major driver of world economies. Its rapid growth in India has opened up many career opportunities for people with all types of experience and qualifications.

The rapid growth of the retail sector and its deep penetration in various parts of the country within a very short span of time has now been termed as the retail revolution. In order to cater to the manpower needs of the retail industry, various retail management courses are being launched by several business schools in India. As the sector is booming in India, a career in retail sector promises good salaries and growth potential for the ambitious youngsters. Retail management is associated with retailing business of departmental stores and shopping malls. There is a big demand for the retail management professionals to process all merchandise shipments, to achieve store sales and profitability, administration of stores as well as communication with the clients to satisfy them. Development of world class retail shops is likely to give direct employment to many professionals like real estate dealers, builders, architects, display designers, retail shop managers and workers like salespersons, security, etc.

With increasing number of Organized Retail stores in India, demand for well qualified as well as non-skilled and semi skilled labour force has increased. Supermarket industry hires youth, pays entry-level workers around minimum wage, and does not require much in the way of skills. Many supermarket companies are interested in retaining these young people and providing them with further training so that they become knowledgeable, long-term employees (Katherine L. Hughes 1999). There are some problems also associated with retail jobs. According to Annette Bernhordt (1999), beyond the poor quality of most retail jobs, there is also the deeper question of opportunities for upward mobility. Retailing as a career, has been considered to be at the bottom end of the social strata. (Shishir Kumar, 2006)

Retail Firms are also increasingly hiring young college graduates for managerial slots and bypassing workers with years of tenure.

Workers who hold retail and other low-wage service jobs tend to be the least educated in the labour force and depend on training for career mobility. Moreover, the industry has one of the flattest job hierarchies in the economy – sales and service occupations make up more than two-thirds of the jobs. Another reality is that graduates from reputed universities do not want to work in retailing because of given wage levels and social status associated with a front line retail position.

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14.2.1 Employment Potential through Retailing

With increase in organized retail, the potential for job creation also goes up. According to CII, the retail sector can absorb 9 lakhs people over the next five years. Some of the activities like packing are likely to be outsourced from in and around the vicinity of the establishment. One million people will be employed by this retail sector and 3.2 million will be required before the turn of decade. The local community is likely to benefit from employment opportunity so generated.

Direct Source of Employment through Retailing

1. Buying and Merchandizing
2. Marketing for Retail
3. Store Operations
4. Sales Jobs in Retail Sector
5. Finance management of Retail business
6. Human Resources of Retail
7. Technology and e-commerce in retailing
8. Visual Merchandizing
9. Inventory management
10. Supply Chain Management and Logistics

Indirect Source of Employment because of Retailing Boom

1. Real Estate sector.
2. Outsourcing of various retail services and goods. Indian exports will get a boost when the big showrooms source Indian goods from small businesses for their international outlets and it will help us to find the market for the products from rural India.
3. Small business can spring up around mega retail outlets.
4. Boost to the air conditioning and refrigeration industry.
5. The production of consumer durable goods is expected to increase by this organized retail sector.
6. The refrigerated containers required to transport perishables to various retail outlets.
7. Increase in transport required for providing goods and services for the retail.

According to Techopak, Ten industry trend 2007 the manpower Gap in retail sector is expected to be around 200,000. Thus, there is tremendous scope for youngsters in this sector.

As per one of the reports by Ernst and Young, the Urban share of population is expected to grow around 41% till 2011. The average return on investment in retail real estate is likely to be around 9–10%, 8–9% and 10–11% for Tier 1, 2, and 3 cities respectively. This growth means better job prospects in other allied sectors of real estate such as Mall management, Facility management, etc.

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14.2.2 Building Career in Retailing

With rapidly expanding departmental stores and huge shopping malls, plenty of job opportunities are opening all over India. An estimated growth rate in retail sector in India has been about 30–40% with establishment of more than 200 shopping malls. It is estimated that the retail sector will create over 13 million jobs throughout the country by 2012. More than 60% of these jobs will be available in the rural areas.

In recent years, several Indian and international companies like Reliance, Pantaloons, Wal-Mart and Big Bazaar have rooted their presence in the country. The vacancies in retail sector are available from the entry to senior management level. Career in retail sector can be developed as store manager, retail managers, retail buyers, retail design/visual merchandise, merchandise planning and product developers. Several institutes in India including Birla Institute of Management Technology in New Delhi, RPG Institute of Retail Management, Indian Retail School and Mudra Institute of Communications, Ahmedabad offer various courses associated with retail management.

Looking to the high potential of retail sectors in terms of its capacity to generate employment, there is a bright opportunity to build career in retail sector. There are many education institutes and retail institutes that offer specialized degree in retailing. Even the students of management in general and Marketing, Finance, Human Resources Management or Information Technology as their specialization, can see retailing as one of the promising option to build career. But one must have concrete planning about how to build career in specific sector. So far as retailing is concerned, students should have some general awareness regarding some of the facts related to retailing that will help them to build their career in retailing easily.

Table 14.1: Required Knowledge and Skills for Various Positions in a Retail Organization

Designation in Retailing	Knowledge and Skill Required
Category Manager	Product Knowledge, Quantitative skills
Area Manager	Knowledge of Management, ability to understand local area requirements, coordination and leadership skill
Store Manager	Quantitative skill, good understanding of consumer behaviour, human resources management ability
Analytics and Forecasting	Analytical skill, ability to visualize and forecast future on basis of data analysis and trend observation
Purchase Manager	Good networking and relationship skill, ability to evaluate and select right vendor, financial management knowledge
Sales Assistant	Qualities of effective salesmanship, persuasive power, product knowledge, good communication skill
Visual Merchandiser	Aesthetic sense, knowledge of interior designing, knowledge of advertising
Administrative Head	Administrative skill with ability to maintain records with the help of technology, good drafting skill

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First of all, students who are looking to build their career in retail sector should know the various designations offered in retail sectors. Accordingly students should also think about skills and knowledge required for different designation. Retail is in itself a big business and asks for many supporting services also. All Management students can build career in retail sector as they have knowledge and skills to manage business. Students can also develop skills and gathered knowledge to manage specialize functions of retailing process such as inventory management, retail advertisement, retail brand management, visual merchandiser.

Table 14.1 gives an idea about some of the designations of retailing and required knowledge and skill base. Apart from skills set and knowledge base, one should also have right aptitude and attitude to be successful in retailing. One must have the ability to mould self as per the retail sector's requirements.

Students should also be aware of various big players in retailing, future trend of retailing, major recruiters in retailing, placement consultant dealing specifically in retailing, major retail institutes, major government and private authority in retailing, etc.

14.2.3 Training and Development in Retail

One of the major challenges faced by Indian retail sector is difficulty in getting right, skillful and knowledgeable employees for different function of retailing. There are number of studies found in the area of retailing that identify skill and knowledge gap in retailing. Following paragraphs presents findings of some of the studies that help to understand required skill and knowledge base for retailing.

In a study spanning across five countries in UK collecting responses of 52 retailers, Hart et al. (2007) found that two of the most fundamental skill gaps identified by employers were young people's "attitude gap" and the "management skill" gap. So students who pursue retail sector as career option should take care of these two aspects.

Possibly the most appropriate focus for this area of analysis is provided by Katz and Kahn (1978) who suggest that organization effectiveness can be expressed in Goal achievement, Increased resourcefulness, Customer satisfaction, Internal Process improvements. Jacqui Gush, (1996) in his study emphasized that Employers believe that technical skills can be learned on the job, they have a limited "shelf-life" and are company specific, therefore little emphasis was placed on these skills, and beyond the acquisition of degree, employers are primarily interested in personal traits which demonstrate potential management competence.

Graduates in store-based positions seek greater autonomy and decision making which, within retailing, is more often associated with head-office positions, as they come to realize that their intellectual abilities and subject knowledge are being under-utilized. When asked about their expectations from the job graduates mentioned following aspects – good training and structured development within a company with a good name and reputation; career prospects and "rapid" opportunities for advancement; interesting job offering challenge, responsibility and variety within the area sought. The study used Parasuraman gap analysis model of service quality.

Notes Several studies have reported on the benefits of training. Organizations that are committed to employee training realize the rewards of increased skill-sets, motivation, higher productivity and knowledge transfer of their employees. In particular, job-related

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training increases an employee's ability to perform job-related tasks. Firms that provide training send a strong signal to employees regarding management's commitment towards employees and customers. Training has also been found to result in facilitating the updating of skills, increasing professionalism and increasing employee commitment and satisfaction to the organization. Employees getting formal training are more satisfied with their job as they feel better about their organization.

Successful salesperson is the one who recognises different customer styles and adapts his/her communication style.

General selling skills, overcoming objections, teamwork' product knowledge, marketing, team management, product information, sales techniques, market information and company information have been identified as major areas for training in retail. Students should build up skill and knowledge around all these area (Nickson et al., 2005). This study pointed to the increasing importance not just of having employees with the "right" attitudes, but also possessing aesthetic skills.

Did u know? Jackson et al. (2002), suggests that the right personality and right appearance are clearly accorded greater worth by employers in the recruitment and selection of frontline staff compared to qualifications.

Conclusion

Jobs in the retail sector can bring handsome remuneration and good opportunity to move up the career ladder fast. The retail sector in India is dominated by the companies like Reliance India, RPG Group, Westside, Titan, Pantaloons, Raymonds, Food World, Barista, Café Coffee Day, Bata, Trent, Crossword, etc. They offer large employment opportunities for the qualified retail management professionals. The multinational companies such as Pizza Hut, Adidas, Nike, Dominos, Kodak, Benetton, Sony, Sharp and Levis are also recruiting the skilled professionals, making a career in retail sector lucrative.

Task Analyze the career scope for an individual who has got master degree in retail management.

With retail sector to grow with its predictable potential in respect of quantity and stability, offers a respective boom in the employment market. It is estimated that by 2012 the sector will create about 13 million jobs in India. It is also auspicious to hear that about 60 per cent of these job vacancies will be in the rural India. The trend will help a lot to check migration of educated manpower from rural areas to the metro cities. As major companies that are already operating in the sector, including Future Group, Reliance Industries and Retail Solution Group are targeting to multiply its workforce to ten folds, there are about a dozen of world's renowned retail groups preparing to take part in the march.

Self Assessment

State whether the following statements are true or false:

5. The rapid growth of the retail sector and its deep penetration in various parts of the country within a very short span of time has now been termed as the retail rotation.

Notes

6. There is a less demand for the retail management professionals to process all merchandise shipments, to achieve store sales and profitability, administration of stores as well as communication with the clients to satisfy them.

7. Workers who hold retail and other low-wage service jobs tend to be the least educated in the labour force and depend on training for career mobility.

8. With increase in organized retail, the potential for job creation also goes up.

14.3 Diversification

Once a firm opts for diversification, it must select one of the options discussed below. There are two broad ways to implement diversification strategies:

1. ***Mergers and Acquisitions*:** A merger is a legal transaction in which two or more organizations combine operations through an exchange of stock. In a merger only one organization entity will eventually remain. An acquisition is a purchase of one organization by another.

2. ***Strategic Partnering*:** Strategic partnering occurs when two or more organizations establish a relationship that combines their resources, capabilities and core competencies to achieve some business objective. The two major types of strategic partnership: joint ventures and long-term partnerships are discussed below:

   - *Joint Ventures:* In a joint venture, two or more organizations form a separate, independent organization for strategic purposes. Such partnerships are usually focused on accomplishing a specific market objective. They may last from a few months to a few years and often involve a cross border relationship. One firm may purchase a percentage of the stock in the other partner, but not a controlling share.

     The joint ventures among Indian and Foreign companies such Hindustan Motors and General Motors, Hero Cycles with Honda Motor Company, Wipro and General Electric etc. are examples of such strategic partnering.

   - *Long Term Contracts:* In this arrangement, two or more organizations enter a legal contract for a specific business purpose. Long-term contracts are common between a buyer and a supplier. Many strategists consider them more flexible and less inhibiting than vertical integration. It is usually easier to end an unsatisfactory long-term contract than to end a join venture.

Self Assessment

Fill in the blanks:

9 . In a ....., two or more organizations form a separate, independent organization for strategic purposes.

10. A ..... is a legal transaction in which two or more organizations combines operations through an exchange of stock.

11. In a merger ..... organization entity will eventually remain.

12. An ..... is a purchase of one organization by another.

Notes

14.4 Online Retailing

Online retailing (also known as B2C or business-to-consumer e-commerce) is basically a Web-enabled interface between your company and your target consumer for selling products and services on the Web with the facility of online payment.

Online shopping provides an opportunity for retailers to extend their markets and attract new markets. Also, the online shopping channel may provide retailers with unique opportunities for brand building and/or leveraging their brand. However, factors influencing consumers' patronage of online environments are only partially understood. Consumers may feel motivated to shop online for many reasons.

Multi-channel retailers may leverage favourable brand images, extending the benefits of strong branding to new channel members. In their study, "What induces online customer loyalty toward a multi-channel retailer? Online versus offline brand images," Kwon and Lennon propose that synergy between online and offline operations can enrich customers' experiences with the retailer, strengthen the brand image of the retailer, and cultivate customer loyalty in both channels.

What Exactly Can Retailing Do for You?

To compete in today's high-pressure business scenario, sellers are looking at the internet as a very effective alternative sales channel, which gives them direct access to target customers. Here are some of the advantages it can give you:

- Requires lower investment (when compared to setting up a conventional, "brick-and-mortar" store)
- Extends your reach to new customers and new markets, and builds an extensive customer base
- Quicker Return on investment (RDI) than conventional, off-line selling
- Reduces customer acquisition costs by up to 70%
- Reduces transaction costs
- Reduces advertising and promotional costs
- Faster inventory turnover
- Improves your understanding of your customers on a 1-to-1 basis
- Helps serve your customer better by giving her greater choice and greater convenience of shopping
- Increases brand value and brand recall
- Eliminates geographical boundaries for your business, and can establish a global market for your product or service

Lab Exercise Go to website http://www.retailcustomerexperience.com/research/431/Online-Retailing and explain how does Forrester predict an e-commerce boom.

Notes

Online retailing can be extremely useful to consumer product and service enterprise especially in the area of:

Apparel, Arts and Handicrafts, Books, Car rentals, Computers and Electronics, Cosmetics, Financial Services, Gifts and Novelties, Groceries, Music, Software, Stationary, Sweets and Confectionery, Tours and Travels, toys, services of all types.

Self Assessment

State whether the following statements are true or false:

13. Online retailing is also known as B2B commerce.
14. Online retailing cannot be useful to consumer product and service enterprise.
15. To compete in today's high-pressure business scenario, sellers are looking at the internet as a very effective alternative sales channel, which gives them direct access to target customers.

Case Study

Careers in Retail

Talk about stepping back in time – this show put me way back when, or as North American Hipsters would have it, 'back in the day'... And what day would that be? Well the 80's of course. I may not always be the sharpest tool in the shed but; even then; how sharp do you need to be to get something. Something... This is what I got; kind of.

On a dark and chilly night in I found myself at an exhibition entitled "Careers in Retail" by a 'consortium' of artists, "Dexter Fletcher". Was this a realist show of some sort? Well I had trouble finding it at first as the poster on the door really did look like a career training poster from back-in-the-day and it did not help that the gallery shares space with commercial business. Eventually I worked it out and made my way upstairs to the intimate art space that is 55 Sydenham Rd for the first time, entering a room of large format, graphic illustrations/art – heavy with texts and quotations – and a Manifesto, something all artists have dreamed of having at some point in time; here it was and for all the crowded text on image of the art, the Manifesto had just two words in bold-all-caps that sized up the Zeitgeist of 80's art school thought on conventional employment, NEVER WORK! After all how can you make art and change the world if you have a full time job. An Old (art) Skool sentiment if ever there was one and the second time I have seen it in as many weeks. *Something* is coming back at us from the past.

You know, Street Fashion Sydney has of late been privately bemoaning the lack of *political* point-of-view in the world of 'fashion blogging' in-particular and art in general – but here it was – a show taking on the desire that drives creativity and the desire for change. Change not driven by the corporate sponsorship of creativity that seems to have been all the rage for the last 20 or so years and now going *LARGE* with so-called independent bloggers... this show seemed to be taking on the life conflicts of creativity at a grass roots level. Did I like the show? It really doesn't matter; it made me a little uncomfortable and

Contd....

Notes

for the past couple of days it has made me think and kept me thinking. Now that's something you don't get at every art show...

Contd....

Notes

Contd....

Notes

http://www.55sydenhamrd.com/

Questions:

1. Analyze the case and interpret it.
2. Write down the case fact.
3. What do you conclude from it?

Source: http://us.iksula.com/biggest-online-retailer.php

Notes

Case Study

India's Biggest Online Retailer

Client is the biggest online retailers of India with the widest pool of products. To maintain the niche, the client required effective content management and price comparison service. Iksula designed a well structured and streamlined content management process along with detailed price comparison analysis report. The service has ensured detailed and comprehensive catalogs for the retailer. The Pricing report as ensured client maintains its core proposition of the least price provider.

Client Profile: Client is a part of India's largest retail chain. The biggest online retailers of the country they offer the widest range of utility and luxury products.

Industry: Online Retail.

Location: India.

Business Challenges: Inefficient content management and cataloging with quick turnaround time.

The technology and accuracy of the process of price comparison.

Solution

Iksula allocated the creative work of product description to its skilled content team. A team aggregates the structured content; the writing team adds the missing details and the QC team checks and delivers the final content. A similar process and solution was designed for pricing comparison service.

Benefits

The client is able to strike the breakthrough growth target by availing Iksula's end to end business management services. This is evident from the fact that the cost reduced by 50%. The weekly reports prepared by Iksula gave greater control and visibility to client management team thus 40% more time available to the CEO to concentrate on strategic issues. In addition the client reported the following benefits:

- Streamlined content management and cataloging process with speedy delivery.
- The twice a week price comparison report enabled the client to offer minimum rates to its customers thus reinforcing brand proposition and conversion.

Questions:

1. Analyze the case and interpret it.
2. Write down the case fact.
3. What do you conclude from it?

Source: http://us.iksula.com/biggest-online-retailer.php

Notes

14.5 Summary

- The legal issues will vary according to what country you are in.
- Ethical issues are more general and would include things like not getting supplies from an unethical source, being honest with the customer etc.
- Now-a-days Internet has important ethical connotations for retailing.
- Positive use of the Internet to publicise retailers' social responsibility contrasts with questionable exploitation of the Web's anonymity.
- The Net not only offers freedom of speech, but also widens opportunities for irresponsible activity.
- Copyright has been internationally standardized, lasting between fifty to a hundred years from the author's death, or a finite period for anonymous or corporate authorship.
- Most jurisdictions recognize copyright limitations, allowing "fair" exceptions to the author's exclusivity of copyright, and giving users certain rights.
- "Trademark is a mark or symbol used by a trader in association with specific goods manufactured and or sold; mark may be a symbol of reputation of some kind in the goods for its origin or quality or both."

14.6 Keywords

Acquisition: An acquisition is a purchase of one organization by another.

Copyright: Copyright is a legal concept, enacted by governments, giving the creator of an original work of authorship exclusive rights to control its distribution, usually for 70 years after the author's death, after which the work enters the public domain.

Joint Ventures: In a joint venture, two or more organizations form a separate, independent organization for strategic purposes.

Long Term Contracts: In this arrangement, two or more organizations enter a legal contract for a specific business purpose.

Merger: A merger is a legal transaction in which two or more organizations combine operations through an exchange of stock.

Online retailing (also known as B2C or business-to-consumer e-commerce): This is basically a Web-enabled interface between your company and your target consumer for selling products and services on the Web with the facility of online payment.

Strategic Partnering: Strategic partnering occurs when two or more organizations establish a relationship that combines their resources, capabilities and core competencies to achieve some business objective.

Trademark: Trademark is a mark or symbol used by a trader in association with specific goods manufactured and or sold; mark may be a symbol of reputation of some kind in the goods for its origin or quality or both."

Notes

14.7 Review Questions

1. What are various related issues to retailing?
2. What does contemporary issues means?
3. What are trade marks? Write in detail about their significance.
4. Explain the mechanics of mergers and acquisitions.
5. Give the steps involved in the M&A process.
6. What are ethical issues related to retailing store?
7. What are the legal issues related to retailing stores?
8. Define the term online retailing?
9. What is the importance of legal and ethical issues in retailing?
10. What is the scope of online retailing?

Answers: Self Assessment

1.	Copyright	2.	substantive, discrete
3.	success	4.	10 years
5.	False	6.	False
7.	True	8.	True
9.	joint venture	10.	merger
11.	only one	12.	acquisition
13.	False	14.	False
15.	True		

14.8 Further Readings

Books

Berman B. Evans J. R., (2004), *Retail Management*, 9th Edition, Pearson Education

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Notes

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