

# P02 –Strategy and Performance

E352 – Retail Logistics

SCHOOL OF  
ENGINEERING

# What is Retail Strategy?



Retailer's target market segment

- Who are your customer?

Retail format or retail mix

- E.g. Product/services offered, price, advertising / Promotions, store design, location etc

***A retail strategy identifies***

The bases of achieving sustainable competitive advantages.

- E.g. convenient location, unique/exclusive merchandise, knowledgeable/helpful sales people, strong brand image, efficient supply chain etc

# Retail Decision Variables



# Retail Decision Variables – Location

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- What kind of location is suitable for the products that store is selling?
  - This location should be a location that the potential customers will come to when they want to buy this type of products.
  - E.g.
    - Shops along Orchard Road are good location for fashion and apparels
    - Shops in Sim Lim are good location for computer and computer peripherals

# Retail Decision Variables – Merchandise Mix

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- What are you selling?
  - Are you focus only on a few products or many different products?
  - NTUC's strategy carries large number of categories but few items in each category
    - 'Few' here is respective to the days of stock they carry
    - NTUC only carry about 1.5 days worth of stock for each category
  - LV on the other hand will only carry one brand, and they will have more days worth of stock as compared to NTUC

# Retail Decision Variables – Pricing



- Are your product targeted at the mass market or they are high end products meant for high spenders?
  - NTUC pricing strategy – Low price everyday and further promotion price for special items
  - LV pricing strategy – Premium pricing with no discount throughout the year



# Retail Decision Variables – Communication Mode



- Use of media for advertising
  - E.g. Newspapers, magazines, TV ads, display in the showcase at the show or special events
- Different communication means will be suitable for different product types.
  - Breakfast bacon – TV or newspaper with promotional display in the store
  - Branded fashion products – launch with parties and catwalks



# Retail Decision Variables – Store Design and Display



- Used to determine the type of customer you attract and it is also related to the type of products that you are selling
  - 77<sup>th</sup> Street - appeals to the young and trendy
  - Mark's and Spencer – appeals to the working class and more mature customers





# Retail Decision Variables – Customer Service



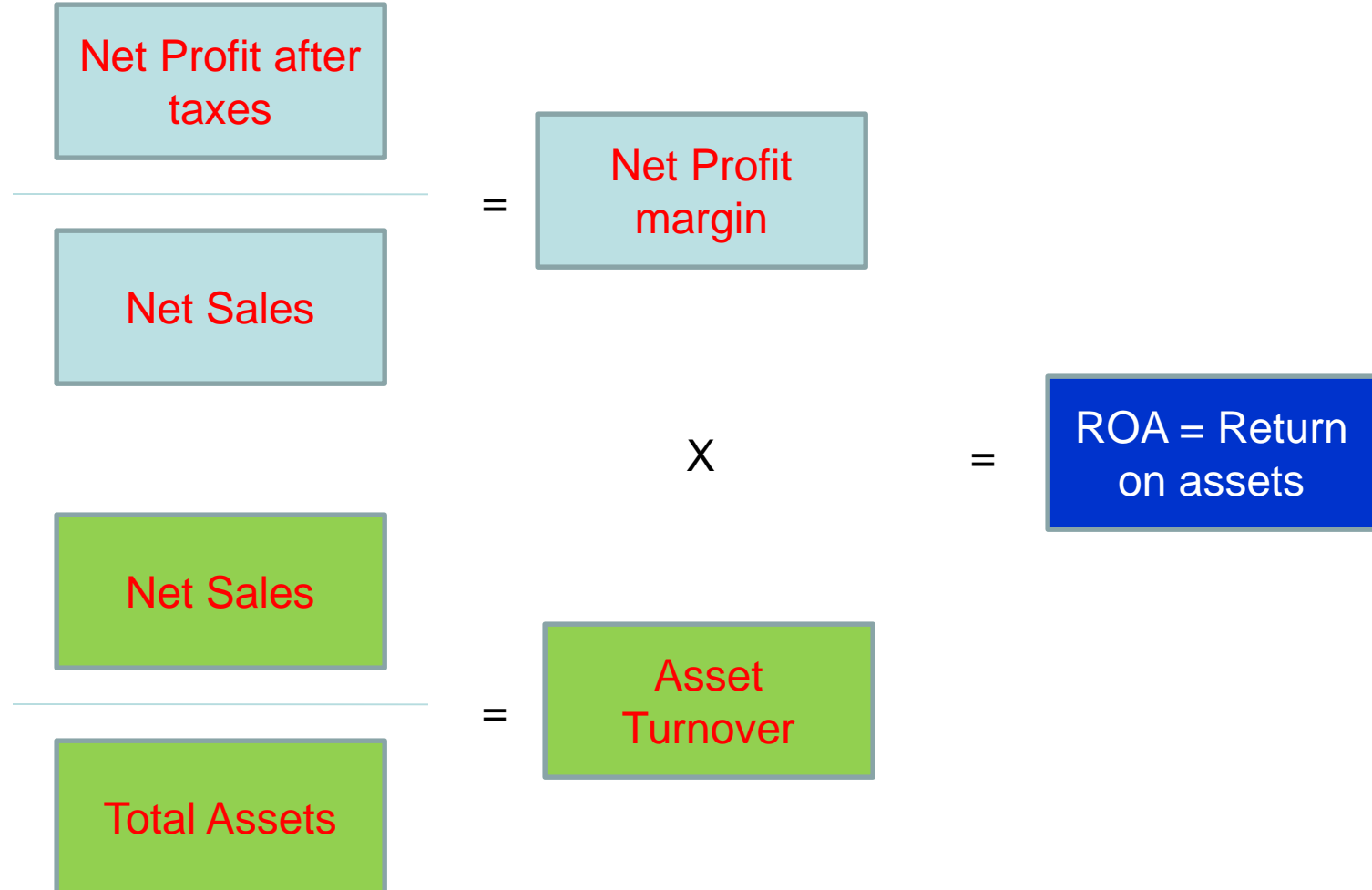
- Retailers have to determine the level of customer services that they will provide to customers
  - Customer service level is also impacted by the type of products that you are selling
  - Gucci – high level of customer service as they are selling high end product and customers want to feel good when they shop and buy from this brand
  - NTUC – very limited customer service as customers will choose and take what they want to buy, bring the goods themselves to the cashier, pay and go off. Very little interaction with the NTUC staff.



# Performance Measurements



## Strategic Profit Model



# Today's Problem – Performance Measurements



- To show how to apply the Strategic Profit Model (SPM), let's use the scenario below (question 5)
  - Okinana Healthcare retail store was doing their annual account closing today. The account information was as follows:
  - A **total sale** for the year closing was **\$5,500,000** and the **cost of goods sold** was **\$3,850,000**.
  - **Total operating cost** which includes staff salaries, rents, utilities and etc was **\$600,000**.
  - There is also a **10% tax** on Profits by the government.
  - There is still an outstanding balance of **\$200,000** which Okinana retail store has already invoiced their customers but yet to receive the money.
  - Okinana Healthcare retail store has been around for **3 years**. Till now, this store has **\$2,200,000** in the bank and at the date of check, there is about **\$1,000,000 worth of stock** in the store. This value was assumed to be the average stock holding throughout the year.
  - **4 years ago**, when Okinana Healthcare retail store was starting up, the owner bought **\$300,000** worth of furniture and fixtures for the store and **\$500,000** on trucks and vans for deliveries. These furniture and fixtures have a financial lifespan of **5 years**, therefore the depreciation rate is at 20% of the cost price per year. The vehicles have a **lifespan of 10 years** and after 10 years, the vehicles have a **scrap value of \$150,000**. Okinana Healthcare retail store does not own any land or property.

# Performance Measurements



Income Statement	
Net Sales	\$5,500,000.00
Less: COGS	-\$3,850,000.00
Gross Margin	\$1,650,000.00
Less: Operating expenses	-\$600,000.00
Total Expenses	-\$600,000.00
Net Profit before Tax	\$1,050,000.00
Less: Taxes (10%)	-\$105,000.00
Net Profit after Tax	\$945,000.00
Gross margin % of sales	30.0%
Operating expense % of sales	10.9%
Net Profit margin % of sales	17.2%

# Performance Measurements



Balance Sheet	
Current Asset	
Cash and cash equivalents	\$2,200,000.00
Merchandise Inventories	\$1,000,000.00
Accounts receivable	\$200,000.00
<b>Total Current Assets</b>	<b>\$3,400,000.00</b>
Fixed Assets	
Land	\$0.00
Building	\$0.00
Furniture, fixtures, etc	\$300,000.00
Trucks and vans	\$500,000.00
Property	\$0.00
Less: accumulated depreciation	\$380,000.00
<b>Net Fixed Assets</b>	<b>\$420,000.00</b>
<b>Total Assets</b>	<b>\$3,820,000.00</b>
Inventory turnover	3.85
Asset turnover	1.44
Return on Asset	24.74%

# Other Examples of KPIs

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- Number of transaction made per month
- How much goods were stolen per month
- Staff turnover
- Items per sale
- Salary to sales ratio

just  
another  
example

# Benchmarking

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- Using things like ROA, Inventory turnover and Asset Turnover can tell us how we are performing, but how do we know if we are performing well?
- Benchmarking
  - Benchmark with the same industry
  - Fashion retail with fashion retail, food retail with food retail, etc.
- E.g.
  - Macy has an inventory turn of 2.8 and Asset turn of 1.2, ROA of 4.7%
  - Polo Ralph has an inventory turn of 3.2 and Asset turn of 1.3, ROA of 12.7%
  - Polo is performing better than Macy

# Retailer's Performance Measure



Organization Level	Output	Input	Productivity
Corporate (whole company)	Net Sales Net Profits Growth in Sales, profits, same store sales	Square feet of store space Number of employees Inventory Advertising expenditures	ROA Asset turnover Sales per employee Sales per square foot
Merchandise management (by category)	Net Sales Gross margin Growth in Sales	Inventory level Markdowns Advertising expenses Cost of merchandise	Gross margin return on inventory investment (GMROI) Inventory turnover Advertising as % of sales Markdown as % of sales
Store Operations (by store or department)	Net Sales Gross margin Growth in sales	Square feet of selling area Expenses for utilities Number of sales people	Net sales per square foot Net sales per sales people or hrs Utility expense as % of sales Inventory shrinkage



# Recommendation

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- To help Okinana build their retail strategies, they can look at the 6 decision variables
  - Location
  - Pricing
  - Customer service
  - Store design and display
  - Merchandising mix
  - Communication mode
- In order to determine the performance of the retail business, Okinana can use the SPM to determine the ROA, asset turn and inventory turn.
- Knowing the numbers does not mean much unless they are benchmarked against similar industry. Thus benchmarking is also important.

# Learning Outcomes

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- Describe what is a retail strategy
- List and describe the decision variables that impact the development of a retail strategy
- Measure retail performance using the SPM
- List other possible KPIs for retailing