Retail - An Overview

1 INTRODUCTION TO RETAIL

Retail is the sale of goods and services from businesses or individuals to end users.

Why Is Retailing Important?

Retailers are the middlemen who link the manufacturers with the consumers. When consumers buy goods, retailers obtain revenue—and so do the manufacturers, distributors, and wholesalers, all of who make up the consumer goods distribution chain. In addition, retail transactions serve as a means for collecting sales taxes, which support public services of all kinds. Thus, consumer money drives the economy, and retail is where consumers spend the money. Retailing is an integral part of our everyday lives and occupies an important place in the world economy.

The major activities carried out by retailers are give below.

Why Is Retailing Important?

Breaking Bulk | **Providing Assortments** | **Providing Services** | **Holding Stock**

Generally, retailers buy large quantities of merchandise from suppliers to reduce their transportation costs. In order to meet customer requirements, retailers need to repack the products in small unit sizes, i.e., break or arrange the bulk into convenient units.

For example, a manufacturer who grows tomatoes, ships large quantities of tomatoes to grocery stores such as the Super Store. The Super Store then sells the tomatoes in smaller quantities.

Why Is Retailing Important?

Breaking Bulk | **Providing Assortments** | **Providing Services** | **Holding Stock**

Manufacturers generally specialize in producing specific types of products. For example, Kellogg's makes breakfast cereals, Amul makes dairy products, and Skippy makes peanut butter. If each of these manufacturers had their own stores that sold only their products, customers will need to go to many stores to buy the groceries needed to make a single meal.

By offering an assortment of products and brands at one location, retailers offer customers variety at one location.

Variety of products and choices in a store

Why Is Retailing Important?

Breaking Bulk | **Providing Assortments** | **Providing Services** | **Holding Stock**

Retailers provide multiple services to customers and other stakeholders in the value chain. These services may be part of their core product offerings or it may be an 'add on' to their product or service. For example, retailers:

- Provide credit facilities to consumers allowing them to buy a product and pay for it later.
- Display products so that consumers can see and test the products before buying them.
- Employ sales persons or maintain websites to answer questions and provide additional information about products.
- Hold stock and provide information about the target segments to suppliers.

Home delivery

Why Is Retailing Important?

Breaking Bulk | **Providing Assortments** | **Providing Services** | **Holding Stock**

Retailers keep inventory so that the products are always available to consumers. This function is particularly important to consumers who have limited storage space at home allowing them to keep only a small inventory of products. It is also useful to consumers who prefer to purchase perishable products, such as meat and vegetables, just before consumption.

Inventory stocked for sale

Types of Retailers

Retailers can be classified into various types based on the criteria such as the channels through which they operate, the nature of ownership, types of products they carry, and the type of customer service they provide. These classifications are discussed in detail in the subsequent topics.

Channel	• Store formats • Non-store formats • Multichannel retailers
Ownership	• Independent retailers • Corporate chains • Franchises • Leased departments • Consumer cooperative chains
Product Type	• Food retailers • General merchandise retailers
Customer Service	• Self-service retailers • Limited-service retailers • Full-service retailers

Classification by Channel

Retailers can be classified by the channel they use to reach their customers as:

Store-Based Retailers	Non-Store Retailers	Multichannel Retailers

Store-based retailers sell goods through a fixed brick-and-mortar location. These retailers might have alternate channels for sales like a website, but the physical store is their primary source of revenue. Store outlets can be further divided into several categories based on ownership and the merchandise offered.

Examples: Target, Wal-Mart, Home Depot

Retail outlets in a shopping mall

Classification by Channel

Retailers can be classified by the channel they use to reach their customers as:

Store-Based Retailers	Non-Store Retailers	Multichannel Retailers

Non-store retailers sell goods and services outside the confines of a retail outlet, mostly through online stores (e-retailers), catalogs, telesales, etc. Customers mostly make their purchase from their homes.

Examples: eBay, Tupperware

Online store

Vending machine

Catalog

Classification by Channel

Retailers can be classified by the channel they use to reach their customers as:

Store-Based Retailers	Non-Store Retailers	Multichannel Retailers

Multichannel retailers sell merchandise and services through more than one distribution channel. Single-channel retailers are evolving into multichannel and omnichannel retailers to attract and satisfy customers. By using a combination of channels, retailers can exploit the unique benefits provided by each channel and increase customer benefits.

Examples: Target, Wal-Mart, Home Depot

Classification by Ownership

Retail organizations can be classified on the basis of the ownership structure of the business.


Independent Retailers


Corporate Retail Chains

Franchises


Leased Departments

Consumer Cooperative Chains

Classification by Ownership

Independent Retailers

Independent retailers are privately owned retail stores. They are also known as 'mom & pop' stores. The owner and a few other local hands or family members working as assistants in the shop manage the outlet. Most independent retailers own only one retail unit.

- **Advantages**: Flexibility in choosing retail formats and locations, low investments, specialized offerings, friendly image, centralized and independent decision making.
- **Disadvantages**: Limited bargaining power with suppliers, low economies of scale in buying and maintaining inventory (due to financial constraints, small assortments are bought several times a year; transportation, ordering, and handling costs per unit are high), labor-intensive operations with little computerization, limited access to media due to budget constraints, and heavy reliance on the owner (there is no management continuity when the owner is ill, on vacation, or retires).

Examples: Mom & Pop stores, Kirana stores

A kirana store

Classification by Ownership

Corporate Retail Chains

Chains are multiple stores under a common ownership with similar lines of merchandise, ambience, advertising, promotions, etc. and some centralized buying and decision making. Although the majority of chains have 5 or fewer outlets, some big U.S. chains have at least 1,000 outlets each.

- **Advantages**: Bargaining power due to volume purchases, functional efficiencies (as they buy directly from manufacturers, ship and store goods in large volume, share warehouse facilities, etc.), computerization (increases efficiency, store operations, and reduces overall costs), media access, well-defined management, and planning.
- **Disadvantages**: Inflexibility (as consistent strategies must be maintained in all units, including prices, promotions, and product assortments), high investments, and reduced control over branches.

Target Corporation operates more than 1,800 retail outlets throughout the U.S.

Examples: Wal-Mart, Target, JCPenney

Classification by Ownership

Franchises

Franchising is an arrangement where one party, the franchiser, grants the other party, the franchisee, the right to use its trademark or trade-name/brand. The franchisee typically pays an initial fee and a monthly percentage of the gross sales in exchange for the exclusive rights to sell goods and services in an area. There are two types of franchises:

- *Product distribution franchise*: In this type of franchising, products are distributed through dealers.
  Example: Auto dealers who sell products manufactured by auto manufacturers.
- *Business format franchise*: In this type of franchising, the franchiser provides the product, the trade names, the operating procedures, and the training required for running the franchise. The franchisee incurs the expenditure for the premises and its interior decoration, and the staff. They also manage the day-to-day business.
  Example: Fast food outlets such as McDonald's and KFC

Advantages and disadvantages

- **Advantages**: Franchisees benefit from small investments, popular brands, standardized operations and training, cooperative marketing, exclusive selling rights, and volume purchases. Franchisers are able to expand their business, improve cash flow, and earn ongoing royalty.
- **Disadvantages**: Franchisees may face constrained decision making, lower than promised profits, strict contract terms, cancellation clauses, and royalty fees. Franchisers could suffer if franchisees hurt the company image, do not operate uniformly, compete with one another, or seek greater independence.

KFC, an example of business format franchise

Classification by Ownership

Leased Departments

Leased departments are used by store-based retailers to broaden their offerings into product categories that often are on the fringe of the stores' major product lines.

Examples: In-store beauty salons, banks, photographic studios, jewelry, cosmetics, watch repair, and shoe repair departments.

- **Advantages**: The lessor benefits from the expertise of the lessee, greater traffic, reduced costs, merchandising support, and revenue. The lessee benefits from a well-known store name, existing customer base, immediate sales, and lower expenses.
- **Disadvantages**: Any conflicts with the lessee can adversely affect the store image. If the lessor's operating style and hours are inflexible or if there are restrictions on the items that can be sold, the lessee would end up with poorer results than expected.

Examples: Meldisco Corporation runs leased shoe departments in 2,300 stores (especially Kmart and Rite Aid). It owns the inventory, display fixtures, and staff; manages the merchandise; and pays a fee for the space occupied.

'Oscar de la Renta' department at Bloomingdale's store

Classification by Ownership

Consumer Cooperative Chains

Consumer cooperative chains are retail firms that are owned and managed by a cooperative society of consumers which aims at fulfilling the needs and aspirations of their members. Their objective is to eliminate profits to middlemen by establishing a direct contact with the manufacturers.

- **Advantages**: Cooperatives provide consumers with price savings.
- **Disadvantages**: Lack of professional expertise

Examples: Carpet One in the U.S., Amul in India

Classification by Product Type

Based on the products they carry, retailers are classified as:

- **Food Retailers**: Food retailers sell a huge assortment of food products, including perishable items such as meat, produce, and dairy, along with general merchandise items such as cleaning supplies, paper products, and health/beauty care products. They are the product authority in those categories.

  Examples: Giant Eagle, Woolworths, Kroger, Sainsbury

- **General Merchandise Retailers**: General merchandise retailers mainly sell non-food items such as auto parts, toys, apparel, jewelry items, shoes, kitchen appliances, home furnishings, clothing, hardware, electronics, cameras, and films. These retailers carry a wide range of product categories but offer limited products within a particular product line.

  Examples: Tesco, Wal-Mart, Target. Most general merchandise retailers sell through multiple channels.

Types of Food Retailers

Convenience Stores

Conventional Supermarkets

Hypermarkets

Supercenters

Warehouse Clubs

Types of Food Retailers

Convenience Stores

Convenience stores are small self-service stores located near residential areas. They have long operating hours and offer a limited line of fast-moving food items such as bread, milk, eggs, chocolates, and non-food items such as toiletries.

Convenience stores usually charge higher prices than ordinary grocery stores or supermarkets, which they make up for with convenience by serving more locations and having shorter cashier lines.

Examples: FamilyMart and Food World in India, 7-Eleven in the US, OXXO in Mexico

Convenience stores stock a range of everyday items

Types of Food Retailers

Conventional Supermarkets

Conventional supermarkets are departmentalized food stores that carry a wide range of food and related items at competitive prices; sale of general merchandise is limited. Conventional supermarkets generally rely on volume sales and their profit margins are low.

Examples: Kroger, Trader Joe's

Conventional supermarkets have more product lines and greater variety

Types of Food Retailers

Hypermarkets

Hypermarkets are very large self-service superstores that combine the supermarket and department stores' retailing principles. They offer a wide range of products under one roof, including full grocery lines and general merchandise. A hypermarket generally has an ambience that attracts the whole family.

Examples: Auchan, Fred Meyer

Packaged food aisles at a Fred Meyer hypermarket

Types of Food Retailers

Supercenters

Supercenters are 150,000 to 220,000 square foot stores that offer a wide variety of food and non-food merchandise. Supercenters offer a broad assortment of grocery and general merchandise under one roof. They stock between 100,000 to 150,000 SKUs.

Examples: Wal-Mart Supercenters, Kmart

Supercenters are huge in size

Types of Food Retailers

Warehouse Clubs

Warehouse clubs sell a limited variety of fast-selling food and general merchandise stock in bulk at a discounted rate to customers. They offer fast-moving, high-turnover merchandise, thus, minimizing holding costs. They reduce prices by using low-cost locations and store designs.

Warehouse clubs sell their products both to end users and to small and medium-sized companies.

Examples: Costco Club and Sam’s Club

At Costco warehouse club, merchandise is stacked on the same industrial pallets on which it is shipped, saving millions in labor costs

Types of General Merchandise Retailers

Discount Retailers

Discount retailers sell products at prices lower than the market price. They offer a wide range of products, such as cosmetics, footwear, sportswear, toys, books, etc. at discounted prices by selling in bulk and clearing excess stock at the end of each season.

Examples: Wal-Mart, Costco, Target

Wal-Mart operates more than 1300 discount stores in the U.S.

Types of General Merchandise Retailers

Specialty Retailers

Specialty retailers concentrate on the sale of a single line of products or services, such as audio equipment, jewelry, beauty, and health care/pharmacy. They are the product authority in that category and offer the broadest/widest assortment in the type of product they specialize in selling, usually at premium prices.

In addition, they provide higher service quality and expert guidance to shoppers.

Examples: Tanishq for jewelry, Toys "R" Us for toys, Best Buy for electronics, Staples for office supplies, Walgreens for drugs.

A drug store

Types of General Merchandise Retailers

Department Stores

Department stores are large stores that are divided into distinct departments for the purposes of buying, promotion, customer service, and control. They sell a wide range of products such as electronic appliances, apparels, jewelry, toiletries, cosmetics, footwear, sportswear, toys, books, CDs, DVDs, etc.

Examples: JC Penny, Shoppers' Stop, Pantaloons, Sears, Macys

JC Penney's Home department

Types of General Merchandise Retailers

Fashion Retailers

Fashion retailers usually make and sell their own clothing brands (private labels) and fashion accessories.

Examples: H&M and Allen Solly

H&M, a go-to spot for designer collaborations

Types of General Merchandise Retailers

Membership Warehouse Stores

Membership Warehouse stores are clubs that sell a limited assortment of general merchandise to customers who are members of the club. They offer goods in bulk at wholesale prices, which makes these clubs attractive to both bargain hunters and small business owners.

Examples: Costco Wholesale, Sam's Club, and Pace

Shelves stacked to the ceilings are a common feature in warehouse stores

Types of General Merchandise Retailers

Category Killers

Category killers are large specialty stores that offer a wide assortment in a single category at lower prices than other retailers. They stock deep, buy and sell cheap, and dominate the category. Other retail stores are forced to reduce the prices if a category specialist retail store is present in the vicinity.

Examples: Toy "R" Us, PetSmart

Toy "R" Us has 10,000 toy items in its store as compared to 3,000 toys in a department store

Types of General Merchandise Retailers

Off-Price Stores

Off-price apparel retailers sell clothing and accessories from major-label brands at a significant discount. They usually sell second-hand goods, off-the-season items, etc. Their operating margins work by moving a high volume of inventory quickly, at rock-bottom prices.

Examples: TJ Maxx, Ross stores

Off-price retailers sell branded merchandise at considerable discounts

Types of General Merchandise Retailers

Variety Stores

Variety stores are stores that sell a wide range of inexpensive items, often with a single price for all items in the store. Typical merchandise includes cleaning supplies, toys, household goods, and gardening equipment. They do not entertain bargaining and the rates are fixed. For example, 99 Cents Only Stores offer all its merchandise at 99 cents only.

Examples: Dollar Tree, Deals, and 99 Cents Only Stores

Dollar Tree, a discount variety store, sells items for $1 or less

Types of General Merchandise Retailers

Factory Outlets

Factory outlets are manufacturer-owned stores that sell their stock directly to customers. They sell manufacturer's closeouts, discontinued merchandise, irregulars, cancelled orders, and excess or previous stocks at reduced prices.

Examples: Factory Outlet of Adidas, Arrow, Nike, and Sony

Factory outlets generally sell products from one brand only

Classification by Customer Service

Retailers attract customers not only with desirable products and affordable prices, but also by offering services that enhance the purchase experience. On the basis of the level of customer service, retailers can be classified as:

Self-Service Retailers	**Limited-Service Retailers**	**Full-Service Retailers**

A type of retail business where customers help themselves to the products that they wish to purchase. Selling items via vending machines is a form of self-service retail. Soda and snack machines typically fall under this category.

In recent times, many conventional retailers like Best Buy have set up kiosks in high foot fall areas such as malls and airports.

An automated outlet

Classification by Customer Service

Retailers attract customers not only with desirable products and affordable prices, but also by offering services that enhance the purchase experience. On the basis of the level of customer service, retailers can be classified as:

Self-Service Retailers	Limited-Service Retailers	Full-Service Retailers

In limited-service retail, sales assistance is given if the customer requests for help.

Examples: Product selection assistance, payment plans, delivery, etc. Most supermarkets and department stores (such as Target, Wal-Mart, and Kmart) operate on this model.

Self-service checkout counter

Classification by Customer Service

Retailers attract customers not only with desirable products and affordable prices, but also by offering services that enhance the purchase experience. On the basis of the level of customer service, retailers can be classified as:

Self-Service Retailers	Limited-Service Retailers	Full-Service Retailers

In full-service retail, the shopper is given advice and detailed information on the goods and is assisted at every stage of the purchase journey. Jewelry stores are examples of full-service retail.

Non-store Retail Formats

Pure-Play Online Retailing

A retail format in which the retailers communicate with customers and offer products and services for sale only through the Internet. It is also called e-tailing or eCommerce.

Typically, these retailers don't have a physical store and sell one type of product over the Internet. Customers place the order online and the product is shipped to the customers' address.

Examples: Vinomofo, Appliances Online, SurfStitch

Pure-play online retailers sell one type of product over the Internet

Non-store Retail Formats

Online Marketplace

An online marketplace is a type of eCommerce site where consumers can buy products from multiple vendors (brands, shops, or persons). A marketplace facilitates transactions between buyers and sellers who interact with one another directly.

The marketplace owner is responsible for attracting customers and keeping track of money transactions, whereas the third-party vendor deals with manufacturing and shipping. This way, the marketplace avoids holding stock and the manufacturer sells the product directly to the customers.

Examples: Amazon.com, Alibaba, eBay, Flipkart, Snapdeal

An online marketplace sells multiple brands

Non-store Retail Formats

Catalog Retailing

A retail format in which the retail offering is communicated to the customer through a catalog. Nowadays, major catalog retailers have embraced a multichannel strategy by integrating the Internet into their catalog operations.

Customers usually get a catalog in the mail, look it over, and go to the Internet for more information and to place an order. Catalog retailers can be general merchandise retailers or specialty retailers.

Examples: JCPenney catalog, Tupperware

Catalog retailers typically sell a wide variety of household and personal products

Non-store Retail Formats

Direct Mail Retailing

A retail format where the retailers communicate with their customers using letters and brochures. This method is highly targeted as retailers often send mails to the customers who are most likely to purchase their products.

Example: Burger King

Non-store Retail Formats

Direct Selling

A retail format in which a salesperson meets a customer in a convenient location and demonstrates the merchandise, takes an order, and delivers the merchandise to the customer. It is a highly interactive form of retailing in which considerable information is conveyed to customers through face-to-face discussions with a salesperson. There are two types of direct selling: party sales and multi-level selling.

- **Party sales**: A salesperson encourages customers to act as hosts and invite friends or co-workers to a party at which the merchandise is demonstrated.
- **Multi-level selling**: In a multi-level network, people serve as master distributors in their network. In addition to selling merchandise, they also recruit and train other distributors. Examples: Tupperware, Avon

A personal product demonstration to customers

Non-store Retail Formats

Television Home Shopping

A retail format in which customers watch a TV program demonstrating merchandise and then place the order by telephone.

Television allows for live presentations and 3D demonstrations of products

Non-store Retail Formats

Vending Machine Retailing

A retail format in which merchandise or services are stored in a machine and dispensed to customers when they deposit cash or use a credit card. Vending machines are placed at convenient, high-traffic locations, and are commonly used to dispense beverages and snacks.

Electronic systems in the machine keep track of inventory, cash, and other operating conditions. Radio devices transmit data back to a host computer. This data is analyzed and communications are sent to route drivers telling them when stockouts and malfunctions occur.

Non-store Retail Formats

Kiosks

Kiosks are freestanding, interactive, electronic computer terminals that display products and related information. Retailers generally use kiosks to enhance the in-store customer service.

Kiosks can be placed almost anywhere, require few personnel, and are an entertaining and easy way for people to shop. Consumers can place orders, complete transactions, and arrange for items to be shipped.

Kiosks can be used as a point-of-purchase

Non-store Retail Formats

Mobile Retailing (M-Retailing)

Refers to retailing products via smartphones, tablets, or other mobile devices. Mobile devices allow customers to browse retail offers, pay for purchases, and opt for home delivery or click and collect.

Mobile retailing is the fastest-growing retail sector

2 CORE RETAIL OPERATIONS

Retail operations involve managing the day-to-day functions of retail establishments.

Overview of Retail Functions

Retail functions can be categorized into strategic, operational, and support functions.

- **Strategic functions** define the tactical blueprint for a retailer. It includes decisions like where to locate the store, warehouse, etc.
- **Operational functions** are the core retail functions, which are more or less common to all retailers, but vary in size and complexity. The traditional operational processes are plan, buy, move, and sell.
- **Support functions** are the auxiliary activities such as human resource management, administration, maintenance, marketing, and logistics management.

As **Operational** functions are the core retail functions, the subsequent topics discuss them in detail.

Planning

Planning is a systematic approach, aimed at maximizing the return on investment by organizing business activities. The key Planning processes are:

Merchandise Planning

On an average, a General Merchandise retailer deals in 30,000 to 1,00,000 products. So, how does the retailer anticipate the sales for each department or division, maintain enough inventory to meet the sales plan, keep purchases in line with the store's ability to pay for them, and have funds available for the purchase of new goods when needed? It's through Merchandise planning.

The goal of the merchandise plan is to set the purchase, sales, margin, and inventory levels needed to meet the objectives defined in the business plan. For example, if the business plan is to increase the sales from $100 million to $150 million, the merchandise plan drills down the high-level financial plan to item level. That is, it breaks down the sales target of $150 million to various departments—let's say Grocery ($50 million), Packaged Food ($30 million), Electronics ($30 million), and Apparel ($40 million). In turn, each department will further drill down their financial target and set sales target at the item level.

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Assortment Planning

After retailers determine the amount available to make purchases, they need to decide on the products that need to be bought. This process of deciding upon and then arriving at the quantity of each product or category of merchandise is termed as assortment planning. Assortment planning involves deciding:

- Which categories and items to sell in a store? For example, assortment decisions for a Convenience store include the following:
    - Product categories to be stocked such as candies, beverages, snacks, and chips.
    - Product line/brands within each category. For example, in chips, different types such as potato chips and tortilla chips, and different brands such as Doritos and Pringles.
    - Choices offered within each product line/brand. For example, in Doritos, different flavors such as cheese, pepper, and chilies, and in different sizes such as 250 mg and 500 mg packs.
- The number of items to be sold in a store to achieve the sales target. For example, sell 200 packs of 250 mg Dorito Cheese packets.

Planning

Planning is a systematic approach, aimed at maximizing the return on investment by organizing business activities. The key Planning processes are:

Space Planning

Space Planning aims at making the best use of available space in a retail store. After deciding on the assortment, retailers need to calculate the space required to hold this assortment. Allocation of space to departments, categories, and finally items is an enormous task, given that a typical store such as Best Buy has around 50,000 SKUs and most of this stock is reset at least three times a year.

Space Planning involves deciding:

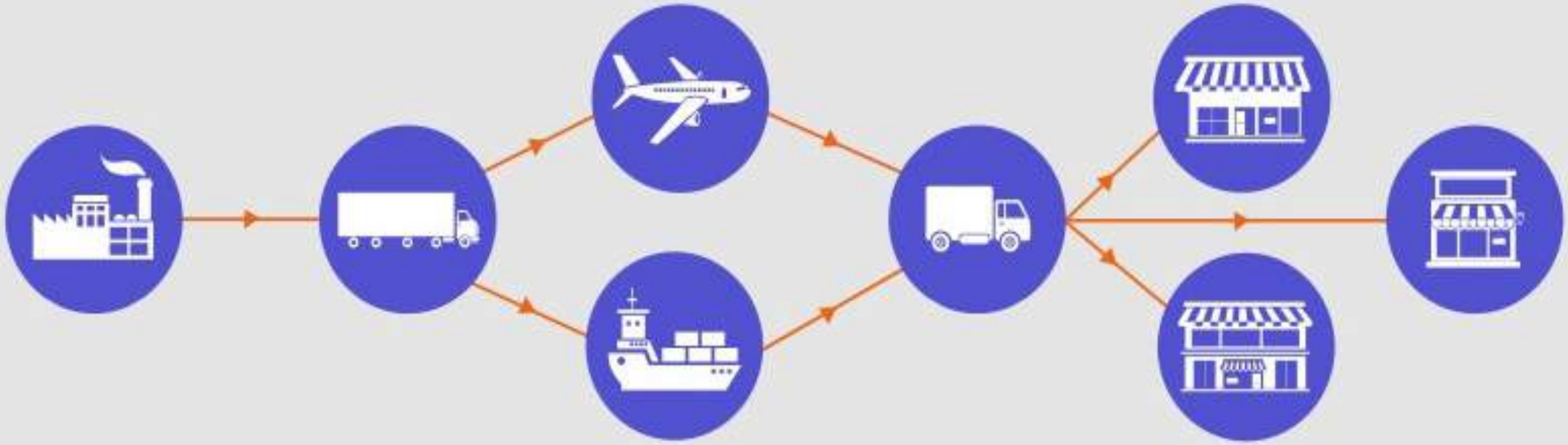
- How much space to allocate to the merchandise? (The right amount of space)
- Where to place the merchandise? (The right place)
- How to display the merchandise in the store? (The right presentation)
- Product adjacencies (The right neighbors)

Planning

Planning is a systematic approach, aimed at maximizing the return on investment by organizing business activities. The key Planning processes are:

Distribution Planning

Distribution Planning helps determine which goods are required, when and in what quantity, and at which location in order to meet the anticipated demand. It also defines the retailers' strategy for moving merchandise to their stores. Some retailers outsource the entire supply chain network to service providers for all or a part of their merchandise. Decisions like these make up this function.



Planning

Planning is a systematic approach, aimed at maximizing the return on investment by organizing business activities. The key Planning processes are:

Promotion Planning

When retailers introduce a new product, want to liquidate old and non-moving stocks or increase customer traffic and sales, they roll out promotions. Promotion Planning involves deciding:

- What, when, and how to promote?
- What type of promotion (example: price-off, buy one get one free (BOGOF), or a discount coupon on next purchase)?
- How often and how long to run the promotion?
- What price points to feature in a promotion?
- How much budget to allocate for the promotion?

Planning

Planning is a systematic approach, aimed at maximizing the return on investment by organizing business activities. The key Planning processes are:

Markdown Planning

Markdown refers to a reduction in the original retail price of an item for reasons such as matching the lower price of another retailer, clearing out shopworn merchandise, reducing assortment of odds and ends, and increasing customer traffic. For example, if a particular line of products is old or slow moving, retailers may reduce the price to make the products attractive to the customers.

Overbuying, duplication, poor timing of deliveries, bad assortment planning, etc., can result in markdowns.

Planning

Planning is a systematic approach, aimed at maximizing the return on investment by organizing business activities. The key Planning processes are:

Collaborative Planning

Retailers no longer just buy product from suppliers, add a markup, and sell at stores.

- Retailers have a significant stake in all the phases of a product's life cycle. They work with vendors in multiple aspects of product design from ideation, product design and development, marketing, pricing, version updates, etc.
- Retailers also gauge vendors and suppliers on multiple aspects like profit margins, vendor financial health, product turn-over, shipping time, etc.

Buying

'Buy' functions include sourcing the right merchandise to meet the needs of the target consumer. The key decisions in the buying process are:

- What to buy and When to buy?
- How much to buy?
- From whom to buy?

The key Buying processes are:

Vendor Management	CPFR	Product Design & Development	Replenishment

There is a complex dependency between retailers and their vendors to efficiently obtain merchandise. Therefore, retailers develop tight partnerships with vendors, and also use various processes to ensure vendor compliance. Retailers set forth guidelines to ensure that:

- Shipments arrive accurately and on time
- Items are priced correctly
- Vendor markdowns are reflected appropriately
- Logos are used properly
- Brands are merchandised according to the vendor's specifications
- Promotions are set up properly. They also maintain vendor scorecards.

Reviewer: Jose Martinez		Vendor A		Vendor B		Vendor C	
Criteria	Weight	Score (scale of 1-3)	Points (score x weight)	Score (scale of 1-3)	Points (score x weight)	Score (scale of 1-3)	Points (score x weight)
Product Performance	3	1	3	3	9	2	6
Product Durability	3	3	9	2	6	3	9
Price	3	3	9	2	6	2	6
On-Time Delivery	3	3	9	2	6	2	6
Customer Service	3	2	6	2	6	2	6
Returns Policy	2	2	6	2	6	2	6
Total Score			42		39		39

A sample vendor scorecard

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The key Buying processes are:

Vendor Management	CPFR	Product Design & Development	Replenishment

Collaborative Planning, Forecasting, and Replenishment (CPFR) is the sharing of forecast and business information, and collaborative planning between retailers and vendors in order to replenish products at the retail end and improve supply chain efficiency. They share information on business strategies, promotion plans, new product development and introduction, production schedules, and lead time information. Such a partnership increases product availability, decreases inventory, and reduces costs.

Buying

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- What to buy and When to buy?
- How much to buy?
- From whom to buy?

The key Buying processes are:

Vendor Management	CPFR	Product Design & Development	Replenishment

Product innovation is becoming increasingly necessary for retailers (mainly fashion retailers) to keep customers interested in their product range. Retailers constantly work with vendors in multiple aspects of product design from ideation, product design and development, marketing, pricing, version updates, etc. They also develop 'Store brands or Private Labels', which offer higher margins to them than national brands. For example, Wal-Mart makes more money selling 'Great Value' paper towels than Bounty.

Product design & development for an apparel retailer

Buying

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- How much to buy?
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The key Buying processes are:

Vendor Management	CPFR	Product Design & Development	Replenishment

Replenishment ensures that the stores are re-stocked with the right quantities at the right time. It is the process of acquiring products on a recurring basis to support anticipated needs. The purpose of replenishment is to keep inventory flowing through the supply chain by maintaining efficient order and line item fill rates. The process helps prevent costly inventory overstocking and ensures that all the required styles and sizes are available on the sales floor. However, this style of ordering does not suit all goods, especially apparel as the fashion changes from season to season and year to year.

Moving

'Move' functions refer to the activities involved in moving products from the point of production to the point of sale. The key Move processes are:

Shipping and Transportation

Shipping and Transportation deals with the physical movement of products from one location to another. There are multiple shipping modes in a large supply chain: vendor to consolidator, consolidator to shipping dock, coast-to-coast shipping, import dock to de-consolidator, de-consolidator to warehouse, and warehouse to store.

Shipping and Transportation also includes customs management and warehouse management.

A typical product flow

Moving

'Move' functions refer to the activities involved in moving products from the point of production to the point of sale. The key Move processes are:

Receiving

Receiving refers to the physical receipt of products at a warehouse or store. In a retail store, the merchandise is received at a designated area. When the products arrive, they may be in plastic containers, cardboard cartons, wooden crates, hangers, or pallets.

When receiving merchandise from suppliers, retailers need to:

- Ensure that the number of cartons match the quantity on the bill of lading.
- Examine the containers for signs of damage, including leaks, tears, or broken seals.
- Verify that the weight matches the amount charged.

Any discrepancies are noted on the freight bill before signing. The retailer is responsible for the entire shipment after the receipt for goods is signed.

Moving

'Move' functions refer to the activities involved in moving products from the point of production to the point of sale. The key Move processes are:

Repacking

Usually, the whole carton of products received at the Distribution Center (DC) is not shipped directly to a store. Instead, these cartons are unpacked at the DC, relevant products are picked for each destination, and put into an over-pack carton along with other merchandise that is to be shipped to a particular store, and then repackaged. The shipping label is affixed and invoice included.

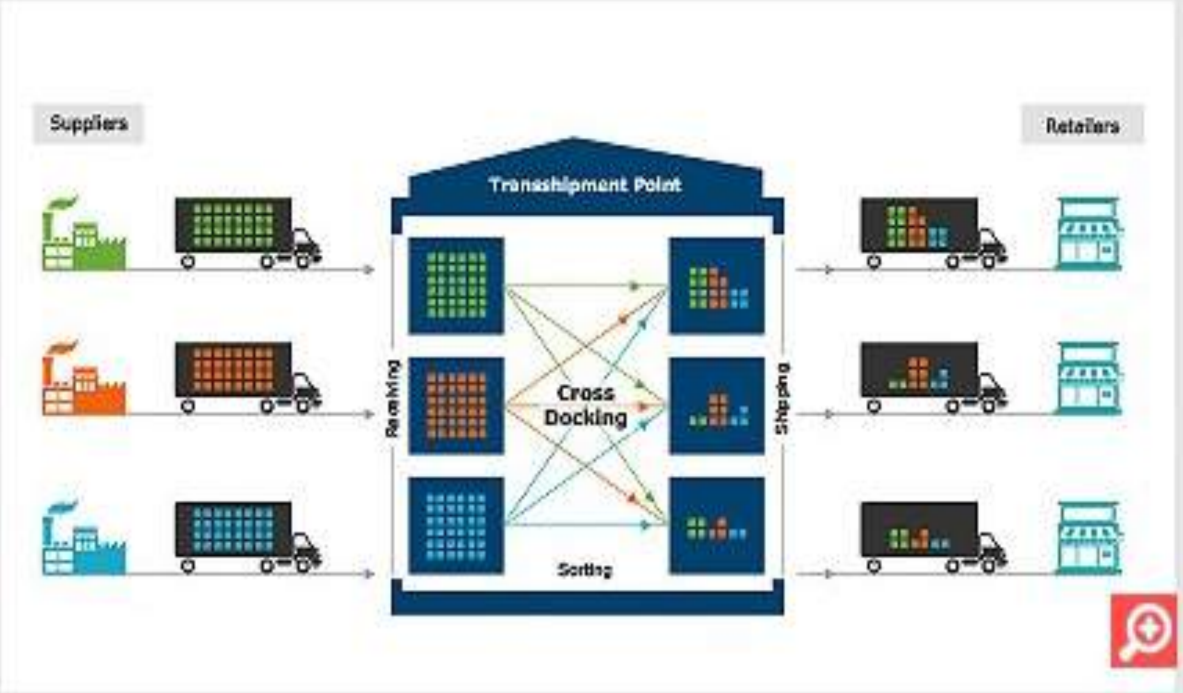
Moving

'Move' functions refer to the activities involved in moving products from the point of production to the point of sale. The key Move processes are:

Cross-Docking

Cross-Docking is the practice of unloading materials from an incoming truck or railroad car, and loading these materials directly into outbound trucks, trailers, or rail cars, with little or no storage in between. This may be done to change the type of conveyance, to sort materials intended for different destinations, or to combine material from different origins into transport vehicles (or containers) with the same, or similar destination.

In retail, cross-docking operations may utilize staging areas where inbound materials are sorted, consolidated, and stored until the outbound shipment is complete and ready for shipment.



A sample cross-docking scheme

Moving

'Move' functions refer to the activities involved in moving products from the point of production to the point of sale. The key Move processes are:

Storage

Storage refers to the interim holding of products at a warehouse.

Warehouse storage has two sub-processes called 'product put-away' and 'product pull'.

- *Product put-away*: The process of taking products from the receiving area and placing it in the most appropriate storage location.
- *Product pull*: The process of pulling products from the storage area when needed.

Most modern warehouses have automated mechanical systems for product put-away and pull.

Storage racks in a warehouse

Moving

'Move' functions refer to the activities involved in moving products from the point of production to the point of sale. The key Move processes are:

Physical Inventory Check

Physical Inventory Check refers to the process of auditing the physical inventory at the warehouse and matching it to the inventory quantity recorded in the system. This ensures the accuracy of forecasting and replenishment systems.

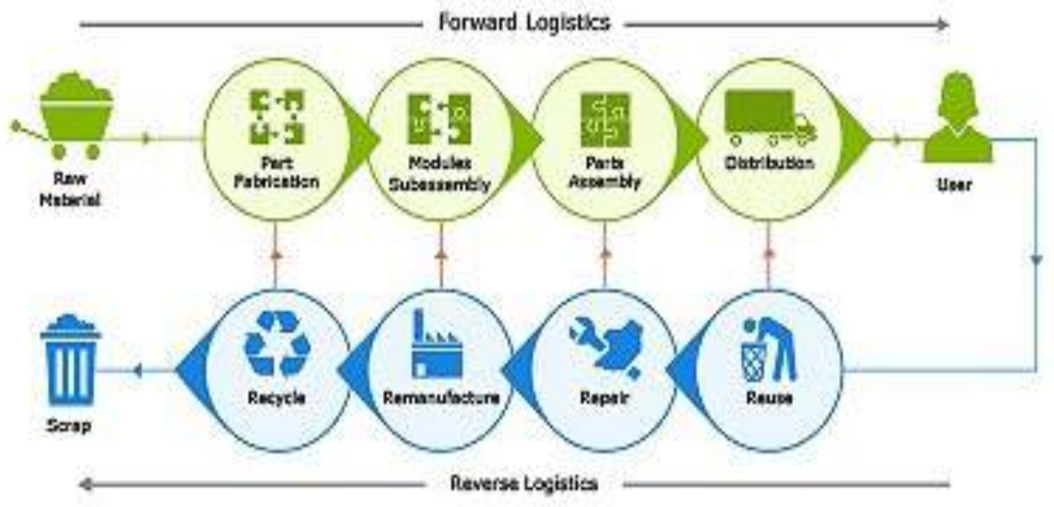
Moving

'Move' functions refer to the activities involved in moving products from the point of production to the point of sale. The key Move processes are:

Reverse Logistics

There may be instances when customers return products. For example, damaged products. The process by which retailers send these products back to the point of origin is called reverse logistics.

Reverse logistics also includes processing recalls and excess inventory, recycling programs, hazardous material programs, obsolete equipment disposition, and asset recovery.



Selling

'Sell' functions consist of activities that are related to and support the sale of a product to consumers.

Store Operations


Displaying Merchandise

Pricing


Point-of-Sale Operations


Customer Relationship Management

Selling

'Sell' functions consist of activities that are related to and support the sale of a product to consumers.

Store Operations

Most of the store functions revolve around the 5 P's of retailing: Product, Price, Place, Promotion, and People. Store operations include the following tasks:

- Managing stock
- Displaying merchandise
- Marketing merchandise
- Recording sales transactions
- Handling cash
- Managing customer relationship
- Preventing inventory loss
- Managing workforce
- Managing store premises and administration

Selling

'Sell' functions consist of activities that are related to and support the sale of a product to consumers.

Displaying Merchandise

Retailers use various techniques to categorize and display merchandise at their retail outlet so that it is easier for the customer to find products.

They categorize items based on several criteria such as product type, brand, color, price, size, age, and lifestyle. For example, retailers may display footwear by shoe size, irrespective of brand or quality.

Selling

'Sell' functions consist of activities that are related to and support the sale of a product to consumers.

Pricing

Retailers have to ensure that every product in the store is being sold at a price that increases profit, preserves market share, and builds customer loyalty. Arriving at the right price for a product or service is one of the most difficult tasks of retailers. Various factors are considered such as the manufacturing cost, market place, competition, market condition, quality of product, etc.

Retailers use many different kinds of pricing strategies to entice customers. For example, some retailers such as Wal-Mart adopt everyday low pricing (EDLP) strategy for all products to differentiate themselves from other general merchandise retailers. Some retailers adopt an Odd-Even pricing strategy where they set a price in odd numbers (just under round even numbers) such as $9.99 instead of $10.00. This is a psychological pricing strategy based on the general perception that customers ignore decimal values.

Selling

'Sell' functions consist of activities that are related to and support the sale of a product to consumers.

Point-of-Sale Operations

In a retail store, the point-of-sale (POS) or checkout is the location where a sales transaction occurs. Most retailers use computerized POS systems to record transactions. POS systems have the ability to record and track customer orders, process credit and debit cards, generate receipts, and manage loyalty programs.

Selling

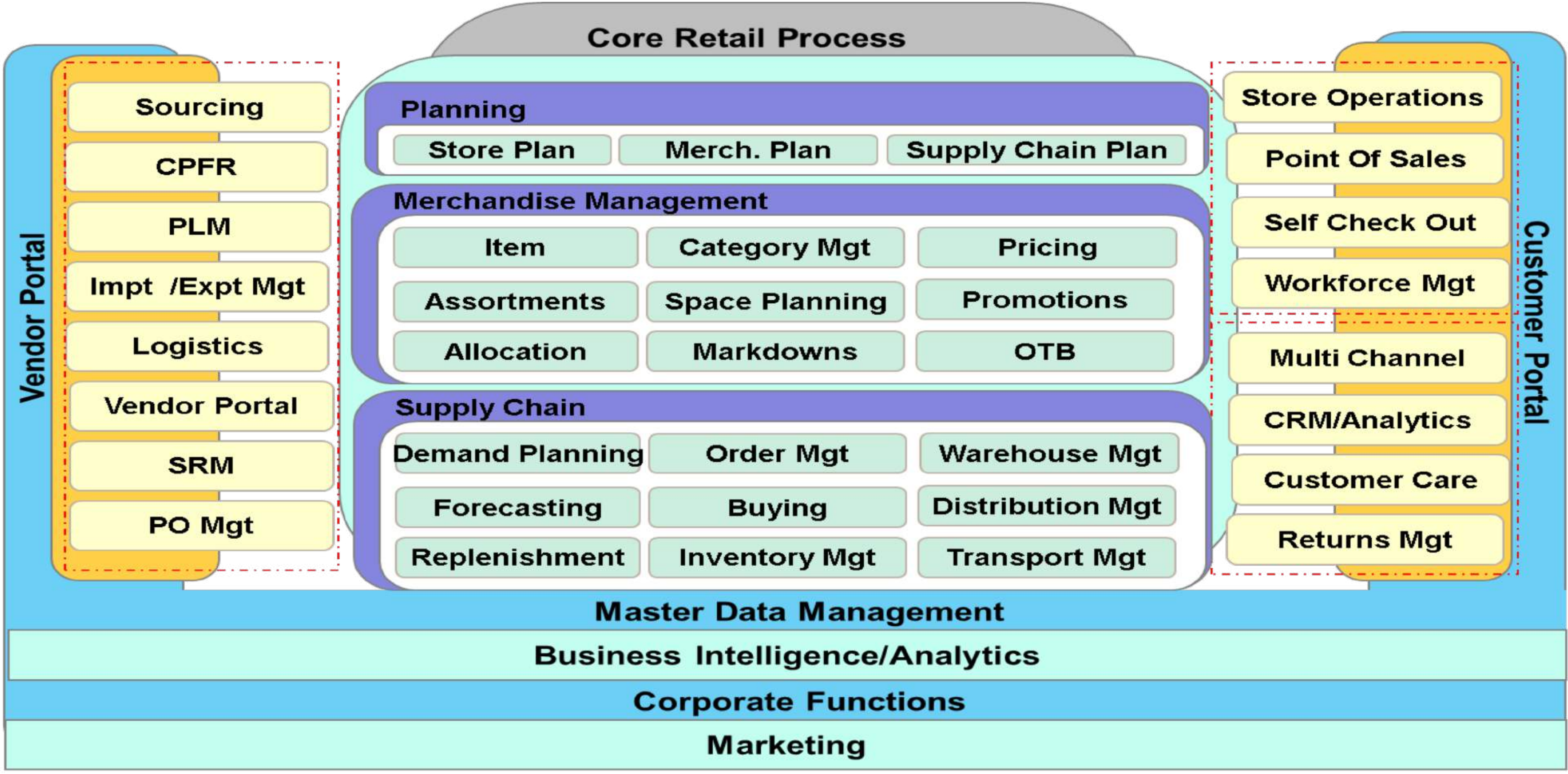
'Sell' functions consist of activities that are related to and support the sale of a product to consumers.

Customer Relationship Management

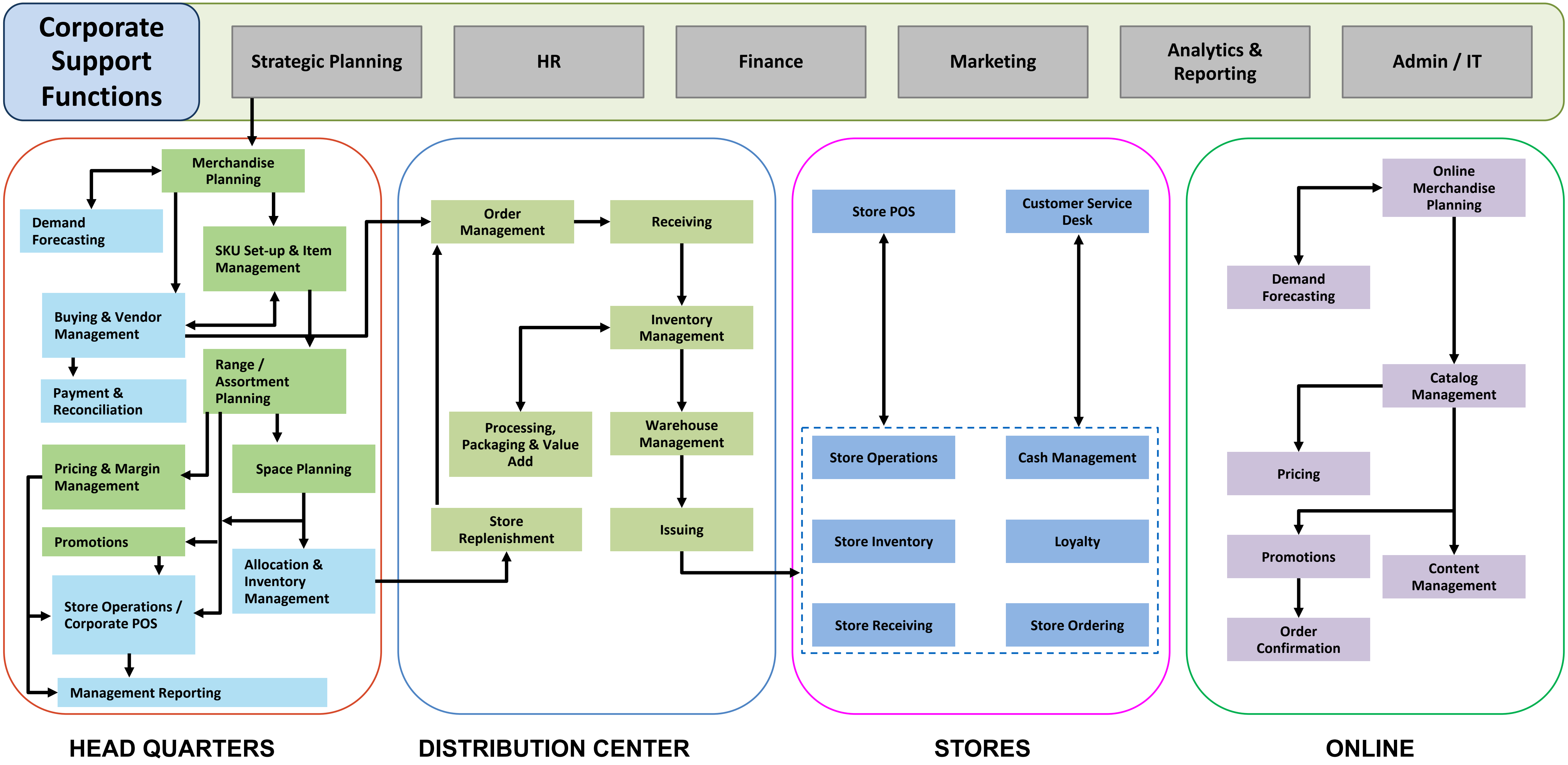
Customer relationship management (CRM) refers to a set of strategies, programs, and systems that focus on identifying and building loyalty. By building relationships with customers, retailers can increase their profitability.

The overall goals of CRM are to find, attract, and win new customers; nurture and retain the existing customers; entice former customers back into the fold; and reduce the costs of marketing and customer service.

Retail as a Value Chain



Retail Business Processes



Thank You