RETAILING:
BRICK-MORTAR/CLICK-MORTAR

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CHAPTER 1
RETAILERS AND THEIR STRUCTURE

Learning Objectives:

After studying this chapter you will be able to:

1. Define retailing activities.
2. Describe the structure of retailing.
3. Explain the concept of non-store retailing.
4. Ascertain the future of retailing.

Retailing, the business of selling consumer goods to final consumers, is constantly changing. Retailers are particularly affected by changes in the consumer population; in the economic, social, technological, and political environment; and in competitive conditions. With positions that require little or no prior experience, competitive salaries and a growing job market, retail as an industry is on the rise. The U.S. Department of Labor (www.dol.gov) and About: Retail Industry (http://retailindustry.about.com) report that The retail industry accounts for about 11.6 percent of U.S. employment. Annual retail employment averaged 15.3 million people in 2005. Retail unemployment was 5.4 percent compared to 5.1 percent overall. Employment of nonsupervisory workers in retail averaged 13.0 million in 2005. Nonsupervisory retail employees averaged 30.6 hours a week during 2005 with average hourly earnings of $12.36. Ten year employment projections expect retail to increase 11.0 percent, versus 14.8 percent overall.

Retail is the second-largest industry in the United States both in number of establishments and number of employees. The U.S. retail industry generates $3.8 trillion in retail sales annually ($4.2 trillion if food service sales are included), approximately $11,993 per capita. The retail sector is also one of the largest worldwide. Retail trade accounts for about 12.4 percent of all business establishments in the United States. Single-store businesses account for over 95 percent of all U.S. retailers, but generate less than 50 percent of all retail store sales. Gross margin typically runs between 31 and 33 percent of sales for the industry but varies widely by segment.

In this chapter we will outline some important market developments, describe the number and variety of retail establishments, and examine retailing's response to changing competitive conditions.

RETAILING

Retailing involves all activities required to market consumer goods and services to ultimate consumers who are motivated to buy in order to satisfy individual or family needs in contrast to business, institutional, or industrial use. Thus, when an individual buys a computer at Circuit City, groceries at Safeway, or a purse at Ebay.com, a retail sale has been made.

We typically think of a store when we think of a retail store. However, retail sales are made in ways other than through stores. For example, retail sales are made by door-to-door salespeople, such as an Avon representative; by mail-order through a company such as L.L. Bean; by automatic vending machines; and by hotels and motels. Nevertheless, most retail sales are still made in brick-and-mortar stores.

THE STRUCTURE OF RETAILING

Stores vary in size, in the kinds of services that are provided, in the assortment of merchandise they carry, and in many other respects. Most stores are small and have weekly sales of only a few hundred dollars. A few are extremely large, having sales of $500,000 or more on a single day. In fact, on special sale days, some stores have exceeded $1 million in sales.

Department Stores. Department stores are characterized by their very wide product mixes. That is, they carry many different types of merchandise that may include hardware, clothing, and appliances. Each type of merchandise is typically displayed in a different section or department within the store. The depth of the product mix depends on the store.

Chain Stores. The 1920s saw the evolution of the chain store movement. Because chains were so large, they were able to buy a wide variety of merchandise in large quantity discounts. The discounts substantially lowered their cost compared to costs of single-unit retailers. As a result, they could set retail prices that were lower than those of their small competitors and thereby increase their share of the market. Furthermore, chains were able to attract many customers because of their convenient locations, made possible by their financial resources and expertise in selecting locations.

Supermarkets. Supermarkets evolved in the 1920s and 1930s. For example, Piggly Wiggly Food Stores, founded by Clarence Saunders around 1920, introduced self-service and customer checkout counters. Supermarkets are large, self-service stores with central checkout facilities; they carry an extensive line of food items and often nonfood products.

Supermarkets were among the first to experiment with such innovations as mass merchandising and low-cost distribution methods. Their entire approach to the distribution of food and household cleaning and maintenance products was to make available to the public large assortments of a variety of such goods at each store at a minimal price.

Discount Houses. Cut-rate retailers have existed for a long time. However, since the end of World War II, the growth of discount houses as a legitimate and extremely competitive retailer has assured this type of outlet a permanent place among retail institutions. It essentially followed the growth of the suburbs.

Discount houses are characterized by an emphasis on price as their main sales appeal. Merchandise assortments are generally broad including both hard and soft goods, but assortments are typically limited to the most popular items, colors, and sizes. Such stores are usually large, self-service operations with long hours, free parking, and relatively simple fixtures.

Warehouse Retailing. Warehouse retailing is a relatively new type of retail institution that experienced considerable growth over the years. Examples are Cosco and Sam's Club.

Franchises. Over the years, large chain store retailers have posed a serious competitive threat to small storeowners. One of the responses to this threat has been the rapid growth of franchising. Franchising is not a new development. The major oil companies such as ExxonMobil have long enfranchised its dealers, who only sell the products of the franchiser (the oil companies). Automobile manufacturers also enfranchise their dealers, who sell a stipulated make of car (e.g., Chevrolet) and operate their business to some extent as the manufacturer wishes.

Planned Shopping Centers/Malls. After World War II, the United States underwent many changes. Among those most influential on retailing were the growth of the population and of the economy. New highway construction enabled people to leave the congested central cities and move to newly developed suburban residential communities. This movement to the suburbs established the need for new centers of retailing to serve the exploding populations.

Such regional shopping centers are successful because they provide customers with a wide assortment of products. If you want to buy a suit or dress, a regional shopping center provides many alternatives in one location. *Regional centers* are those larger centers that typically have one or more department stores as major tenants. *Community centers* are moderately sized with perhaps a junior department store; while neighborhood centers are small, with the key store usually a supermarket. *Local clusters* are shopping districts that have simply grown over time around key intersections, courthouses and the like. *String street locations* are along major traffic routes, while isolated locations are freestanding sites not necessarily in heavy traffic areas. Stores in isolated locations must use promotion or some other aspect of their marketing mix to attract shoppers. Still, as indicated in the next Newsline, malls are facing serious problems.

NONSTORE RETAILING

Nonstore retailing describes sales made to ultimate consumers outside of a traditional retail store setting. In total, nonstore retailing accounts for a relatively small percentage of total retail sales, but it is growing and very important with certain types of merchandise, such as life insurance, cigarettes, magazines, books, CDs, and clothing.

One type of nonstore retailing used by such companies as Avon, Electrolux, and many insurance agencies is *in-home selling*. Such sales calls may be made to preselected prospects or in some cases on a cold call basis. A variation of door-to-door selling is the *demonstration party*.

Here one customer acts as a host and invites friends. Tupperware has been very successful with this approach.

Vending machines are another type of nonstore retailing. *Automated vending* uses coin-operated, self-service machines to make a wide variety of products and services available to shoppers in convenient locations. Cigarettes, soft drinks, hosiery, and banking transactions are but a few of the items distributed in this way. This method of retailing is an efficient way to provide continuous service. It is particularly useful with convenience goods.

Mail-order is a form of nonstore retailing that relies on product description to sell merchandise. The communication with the customer can be by flyer or catalog. Magazines, CDs, clothing, and assorted household items are often sold in this fashion. As with vending machines, mail-order offers convenience but limited service. It is an efficient way to cover a very large geographical area when shoppers are not concentrated in one location. Many retailers are moving toward the use of newer communications and computer technology in catalog shopping.

Online marketing has emerged during the last decade. There are two types of online channels: (1) commercial online channels--various companies have set up online information and marketing services that can be assessed by those who have signed up and paid a monthly fee, and (2) Internet--a global web of some million plus computer networks that is making instantaneous and decentralized global communication possible. Users can send e-mail, exchange views, shop for products, and access real-time news.

Marketers can carry on online marketing in four ways: (1) using e-mail; (2) participating in forums, newsgroups, and bulletin boards; (3) placing ads online; and (4) creating an electronic storefront. The last two options represent alternative forms of retailing. Today, more than a million businesses have established a home page on the Internet, many of which serve as electronic storefronts. One can order clothing from Lands' End or J.C. Penney, books from BarnesandNoble.com or Amazon.com, or flowers from 1800Flowers.com to be sent anywhere in the world. Essentially, a company can open its own store on the Internet.

Companies and individuals can place ads on commercial online services in many different ways. First, the major commercial online services offer an ad section for listing classified ads; the ads are listed according to various criteria—sometime you pay more for a more conspicuous ad, sometimes it is sorted by price, sometimes by dates, etc. Second, ads can be placed in certain online newsgroups that are basically set up for commercial purposes. Also, ads can also be put on online billboards; they pop up while subscribers are using the service, even though they did not request an ad.

Research provides the following insights:

- For net upstarts, the cost per new customer is $82, compared to $31 for traditional retailers.
- E-tailers' customer satisfaction levels were: 41% for customers service; 51% for better product information; 66% for product selection; 70% for price, and 74% for ease of use.
- Repeat buyers for e-tailers was 21% compared to 34% for traditional retailers.

Suggestions to improve the plight of e-tailers include the following:

- Keep it simple.
- Think like your customer.
- Engage in creative marketing.
- Don't blow everything on advertising.
- Don't undercut prices.

Catalog marketing occurs when companies mail one or more product catalogs to selected addresses that have a high likelihood of placing an order. Catalogs are sent by huge general-merchandise retailers such as J.C. Penney's and Spiegel that carry a full line of merchandise. Specialty department stores such as Neiman-Marcus and Saks Fifth Avenue send catalogs to cultivate an upper-middle class market for high-priced, sometimes exotic merchandise. Several major corporations have also acquired or developed mail-order divisions via catalogs. Using catalogs, for example, Avon sells women's apparel.

Television home shopping is possible when consumers watch a shopping channel on which products are displayed; orders are then placed over the telephone or the Internet.
One popular program, Home Shopping Network (HSN), uses its 24-hour programming to reach more than 143 million households worldwide. The company generates sales of over $2 billion by offering approximately 21,000 products and shipping 41 million packages each year! Because television home shopping programs typically attract women over age 35, other programs such as MTV's "House of Style" are designed to attract a younger audience. Another leading program, QVC, recently opened a store called QVC @ the Mall in the Mall of America to introduce people to the QVC concept and attract new customers. A limitation of TV shopping has been the lack of buyer-seller interaction. New Internet technologies, however, now allow consumers to simultaneously shop, chat, and interact with their favorite show host while watching TV.

Some companies have designed "customer-order placing machines" i.e., *kiosks* (in contrast to vending machines, which dispense actual products), and placed them in stores, airports, and other locations. For example, the Florsheim Shoe Company includes a machine in several of its stores in which the customer indicates the type of shoe he wants (e.g., dress, sport), and the color and size. Pictures of Florsheim shoes that meet his criteria appear on the screen.

ONLINE RETAIL SALES PROJECTION

U.S. online retail sales will more than double over the next six years, reaching $316 billion by 2010. According to a new report from Forrester Research, the growing population of online shopping households, combined with effective multichannel integration and site improvements from retailers, will drive e-commerce growth to account for 12 percent of total retail sales in 2010, up from nearly 7 percent in 2004.

Significant behavioral changes by consumers and retailers will fuel online retail growth over the next six years. While consumers continue to become more comfortable buying a variety of items online, retailers will apply what they have learned in the early days of online retailing to implement site enhancements that provide a greater return on investment and a better experience for customers.

U.S. ECOMMERCE 2004 TO 2010

Most online retail categories will grow between 10 percent and 20 percent compound annual growth rate (CAGR) over the next six years. Categories including tools and hardware and garden supplies will experience above-average growth, as consumers become increasingly comfortable buying products that historically have seen slow growth online. Flowers will also experience an above-average spike as consumers continue to shift spending away from telephone orders.

As more retailers increase and improve their multichannel efforts, like in-store pickup, categories like home décor will see an increase in sales. By targeting blogs, search engines, chartrooms, and message boards, retailers will run appropriate ads while consumers are discussing a specific product, or content related to that product.

CHAPTER 2
RETAIL MANAGEMENT REQUIREMENTS

Learning Objectives:

After studying this chapter you will be able to:

1. List the requirements of management.
2. Detail the financial structure.
3. Illustrate the physical facilities.
4. Develop sound policies.
5. Ascertain the competency and loyalty of retail personnel.

The main requirements of effective retail management may be classified into five broad groups: personal qualifications of management; an adequate financial structure; necessary physical facilities; effective policies and procedures; and competence, loyalty, and productiveness of personnel.

PERSONAL REQUIREMENTS OF MANAGEMENT

The single most important ingredient in the success of a retail business is management, that is, the key executives. Successful executives are hardworking, self-disciplined individuals who are willing to accept significant responsibilities and to give unstintingly of themselves. One writer suggests that their essential functions are threefold: giving *direction* to the firm (establishing goals, developing operating programs, initiating action, and coordinating activities to achieve the goals); *representing the company* to the public ("the most underrated of management's multiple responsibilities"); and evaluating results, that is, taking the necessary steps "to examine the consequences of what has been done, to analyze the causes of deviations (from goals), and to determine what steps must be taken to put operations back on course."

Satisfactory managerial performance in retailing requires the same personal characteristics as in other businesses. These include knowledge, experience, drive, friendliness, leadership, judgment, decisiveness, vision, effective expression, and character. The retail executive must be market oriented, that is, sensitive to customer desires. Overlapping these characteristics is the need for overall administrative ability.

Administrative ability. Successful administration rests upon three basic and related skills - technical, human, and conceptual:

1. Technical skill . . . implies an understanding of, and proficiency in, a specific kind of activity, particularly one involving methods, processes, procedures, or techniques.... It involves specialized knowledge, analytical ability within that specialty, and facility in the use of the tools and techniques of a specific discipline.

2. Human skill . . . the executive's ability to work effectively as a group member and to build cooperative effort within the team he leads. Technical skill is primarily concerned with working with "things" (processes or physical objects), while human skill is primarily concerned with working with people.

3. Conceptual skill . . . involves the ability to see the enterprise as a whole: it includes recognizing how the various functions of the organization depend on one another, and how changes in any one part affect all the others; and it extends to visualizing the relationship of the individual business to the industry, the community, and the political, social, and economic forces of the nation as a whole....

The retail executive who possesses such skills and utilizes them with discretion and judgment is likely to be a *good* administrator.

Financial structure

The second basic requirement of successful retail management is adequate capital. Regardless of one's personal qualifications and interest, continuous, profitable operation is impossible without sufficient funds. This need for funds permeates all phases of the business from the exploratory and planning stages to the final payment for both goods purchased and services rendered by employees.

Physical Facilities

Adequate physical facilities, the third main requirement of effective retail management, include a satisfactory building, properly located and arranged; suitable fixtures and equipment; and the other devices and mechanisms necessary to provide customers with needed merchandise and services in a pleasant environment.

Sound policies

Business policies, the next essential of profitable retail management, are the rules of conduct either written or implied, under which the firm operates. A policy establishes a definite and uniform course of action to be followed, both over time and by all members of the organization, under substantially similar and recurrent circumstances. Today, retail stores operate under trying conditions. Intensity of competition is increasing. Traditional retailers are changing their product mix and service offerings, and discount merchandising is growing rapidly. Population shifts, high taxes, business conditions, the cost of construction and modernization, the potential growth of unions, and the increase in governmental regulations place severe restrictions on some of the retailer's former freedoms.

These conditions necessitate carefully established policies. Retailers must have a set of standards to guide their actions and those of their employees, and changing conditions often call for policy adjustments because a policy is valid only so long as the circumstances which brought it into existence remain substantially the same.

Establishing retailing policies. The business policies of any firm will depend upon what is desired and what is possible. But what is desired is not always possible. Retailers must constantly make compromises to meet the situations that confront them, such as the laws of the land, public opinion, profitability of operation, activities of competitors, vested interests of individuals in their own organizations, their personal prejudices, usual services provided to customers of their own and similar stores, and the resources at their command. Responsibility for establishing proper policies varies with the size and the kind of business and with the type of ownership organization under which the store operates.

Areas of policy decisions. These areas are numerous and varied, such as the kind and quality of merchandise to be handled, the forms of customer service to be rendered, the types of sales promotional efforts to be carried out, and the problems related to HR administration. Decisions on these practices, and efficient performance of are discussed in subsequent chapters.

Policy enforcement and revision. No policy, however well conceived, can be of value unless it is closely and consistently adhered to throughout the organization. Continual follow-up and enforcement are necessary to assure such adherence, especially in regard to the rank and file of employees.

Competency and loyalty of retail personnel

The fifth and final basic requirement of success in retailing is the human factor. Unless an adequate staff of employees in both sales and sales-supporting activities is carefully selected, effectively trained, adequately compensated, and properly supervised, profitable store operation is impossible. Competency in the particular activities in which they are engaged, loyalty to top management and their immediate supervisors through close adherence to established policies, duties and responsibilities at reasonable cost are major obligations of every employee. In turn, it is the obligation of management to be so objective, logical, and progressive in policies and practices that loyalty and respect on the part of employees is engendered.

Social contribution. Successful retail businesses provide employment, serve consumers, facilitate market distribution, and benefit their communities in many other ways. Merchants make policy decisions leading to their involvement in local, state, and national trade associations; service clubs (Rotary, Lions, etc.); charity drives; and other civic and societal organizations.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. Retail managers’ function of representing the company to the public is the most overrated of their functions.

2. A manager's conceptual skill could be viewed as the ability to segment and stratify the various functions of the organization.
3. Retailing policies are established by the environments within which the retailers operate.
4. Retailing policies should be subject to constant review and enforcement.

Answer

1. False. Retail managers' function of representing the company to the public is the most *underrated* of their multiple responsibilities.
2. False. A manager's *conceptual skill* is the ability to visualize and *integrate* the various function of the organization.
3. False. Retailing policies are established by the retailers; they should take into consideration the environment within which they are operating to effectively formulate these policies.
4. True. Any type of business policy should be subject to constant review and enforcement.

CHAPTER 3
STORE LOCATION

Learning Objectives:

After studying this chapter you will be able to:

1. Investigate and research the best location for a new store.
2. Identify the basic factors in location.
3. Predict the changing retail markets.
4. Explain the trend toward urban areas.
5. Discuss the decentralization of retailers.
6. Describe the new shopping center designs.

The location of a retail store determines, to a large degree, the sales made and the profits realized, thus playing a vital part in the store's success. Good locations may offset deficiencies in management, but poor locations seriously handicap even the most skillful merchandisers.

Location: A continuing problem

Most discussions of location relate to opening a new store, but this problem is even broader. Because of population shifts, the movement (in or out) of other retailers, improvement or deterioration of buildings, and the establishment of shopping centers, suburban and roadside stores, and discount houses, good locations of one period may gradually become poorer (or better) ones. Retailers, therefore, are always faced with a location problem.

Some retailers continue to choose locations without proper analysis, but most developers and large-scale retailers conduct careful studies before final decisions are made. For example, one organization will not approve a site for a shopping center until it is subjected to a searching analysis, covering such factors as current population in the trading area, population trends, current and potential per capita income of the area, competing centers or retailers, shopping loyalty of potential customers, road patterns, from expected sales by major classes of merchandise. In contrast, a local drug chain relies largely on the judgment of a chief executive who usually appraises a site "just by taking a ride around a particular area, talking to some of the people living there, and getting a general feel of the site's expansion possibilities"; and thousands of small stores each year choose particular sites largely because they are available, with little or no attempt to analyze them. This situation exists because retailers fail to appreciate the significance of location. They consider the cost of an analysis unnecessary or are eager to start "tending the store." Others recognize the value of location research and are willing to spend money and time on it. Yet research techniques in this area have made little progress recently, and many retailers continue to rely on the judgment of experts experienced in this area.

Basic factors in location

Factors governing the choice of a location for a retail store may be divided into two groups: (1) those that influence the choice of a city or trading area in which to locate and (2) those that determine the particular site within the chosen city or trading area.

Selecting a city or trading area. Major factors requiring consideration are as follows:

1. The number, type, and character of the industries within the confines of a city and its surrounding trading area.
2. Population of the trading area, including its composition and its rate of growth (or decline).
3. Progressiveness of the city, measured by numerous factors of social and economic change.
4. Buying habits of potential customers, as well as their customary buying practices, preferences, and prejudices.
5. Purchasing power, as reflected in the number of people employed, the total payrolls of the industries in the district and the average wage, the regularity and frequency of payment of wages and salaries, and the amount of and trend in bank deposits.
6. Dispersion of wealth, determined by the types or kinds of homes in the area, the proportion of homeowners, the educational level of the community, the number of telephones, the number and makes of automobiles, per capita retail sales, and the number of credit accounts .
7. The number, type, floor space, and location of competing retail stores, viewed in the light of the economic need of the community for a store of the type being considered.
8. The kinds and amount of taxes that must be paid, together with the trend in rates, and the various licenses often made to obtain this information.
9. Other factors such as availability of good wholesale supply, advertising, and banking facilities.

Selecting a specific site. Fundamental considerations to be taken into account in choosing a site are as follows:

1. *The estimated volume of business.* For independent stores this estimate is commonly based on such factors as sales of nearby competitors; estimates gathered from other sources, including salespeople; and trade associations. For chain stores it is determined by considerations which include the per capita annual sales of company stores of comparable size located in cities of comparable population, type of industries, and number of persons employed; by the annual sales per counter-foot in company stores approximately equal in size; and by estimates of sales of competitors in the city.
2. *Customer buying habits* in *relation to types of goods sold, that is, convenience goods, shopping goods, or specialty goods.* Good roads, increased use of automobiles, urban decentralization, shopping centers, and discount houses are all bringing changes or reflecting shifts in buying habits.

3. *The amount, kind, and distribution of potential customer traffic by hour of the day and days of the week.* Traffic counts are often made to obtain this information.
4. *Location in relation to competitors and other stores.* For some stores, location in the central shopping district or in a large shopping center is almost essential to success; for others, successful operations may be conducted outside such areas.
5. *Accessibility.* Among the numerous factors relating to accessibility which warrant investigation are the following: (a) public transportation facilities to the proposed store; (b) distance from residences of potential customers and employees; (c) traffic congestion prevailing in the district, and the variations in this congestion during hours of the day and days of the week; (d) available parking facilities convenient to the proposed store; (e) side of the street upon which the site is located; (f) width of the street; and (g) the part of the block in which the site is located, that is, whether it is a corner location or an "inside" location.
6. *Return on capital investment,* involving such considerations as the equipment and fixtures to be used, the size and turnover of merchandise inventory, and the rent to be paid or the cost of the site and building.
7. *Detrimental site characteristics such as the following should be avoided:* (a) smoke, dust, disagreeable odors, and noise; (b) proximity to garages, hospitals, taverns, and similar places; (c) poor sidewalks; and (d) old and worn-out neighboring structures.
8. *Availability of the site.* The type and construction of the building may be suitable without remodeling, but a favorable lease covering the period desired, the amount of rental, privilege of renewal, and similar matters must be worked out. Otherwise, the possibilities of obtaining land and constructing a building should be investigated. No site will rate perfectly on all of the foregoing characteristics, so the merchant must determine which ones are most essential for the planned type of store (e.g., customer traffic for convenience goods) and then evaluate the desirable and undesirable aspects of the location under consideration.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. Store location is a consideration which is only important when the opening of a new store is contemplated.
2. Store location can be evaluated in a completely objective manner.
3. The income distribution patterns of different areas affect their relative attractiveness for store locations.
4. The problem of accessibility is rather unimportant in our highly mobile society.

Answer

1. False. Store location is also important in explaining the relative profitability of established outlets.
2. False. Even when research techniques are used, location analysis still involves many subjective factors.

3. True. The total purchasing power of an area must be considered in light of the distribution of that purchasing power among the population in order to get a true picture of the relative attractiveness of that area.
4. False. The consideration of accessibility is one of the most important factors in selecting a store location.

Changing retail markets

Many small towns with friendly and progressive stores remain viable retail centers, and in later years many national chains announced plans to open stores in communities of 10,000-25,000 population. But with increased urbanization, approximately 80 percent of all consumer buying power is concentrated in the 254 Standard Metropolitan Statistical Areas (counties or county groups with at least one 50,000 population community).

"Explosion" in suburbia. The retailer should correctly interpret the trend toward urban areas. In recent decades, the relative gain in urban population has largely taken place in the *suburban* areas. In the central areas of many larger cities the growth is very slow or does not exist. Numerous factors are responsible for the shift of population to the suburbs. It may be partially explained by a desire for improved living conditions. The shorter workweek, longer vacation periods, more paid holidays encouraging people to live some distance from their work, and the high taxes prevalent in large cities are also factors.

In the outlying areas a way of life has developed. The suburbanite is more apt to own a home and to buy more furniture, appliances, garden tools, records and books, and sportswear than city contemporaries.

As a result, during the last 30 to 40 years a new metropolis or metropolitan area has emerged as a social and economic unit. It consists of a declining or slowly growing central city and an exploding suburban area.

Trend toward megalopolis. As metropolitan areas expand, some of them begin to overlap to produce what we refer to as a "megalopolis." Witness the coming-together of the Boston, New York, Philadelphia, Baltimore, and Washington metropolitan areas so that they - in effect - form a single stretch of urban and suburban areas. Similar megalopolises are taking shape in other parts of the country, especially along the California coast, Puget Sound, and in the lower Lake Michigan area.

Decentralization of retailers. The fully enclosed mall air-conditioned type factors have brought about a relatively large gain in retail sales in suburban areas during recent decades: (1) the pronounced shift of population to the suburbs, (2) changes in the shopping habits of women, (3) the increased use of the automobile, (4) the rapid rise in the cost of public transportation to reach the downtown areas, (5) traffic congestion and the lack of economical and convenient parking lots in the central shopping districts, and (6) the excellent retail facilities developed in the suburbs.

Retail structure of the metropolitan area

Although significant differences exist in the retail structures of our metropolitan areas, a structure analysis applicable to all of them is possible. Each area seems to contain an older central shopping district, one or more older secondary shopping districts and newer shopping centers, several scattered large freestanding stores, some neighborhood business stands, and many scattered areas with single units or clusters of small stores. Only the newer shopping centers and the large freestanding stores, perhaps, require further explanation.

The newer shopping centers. Usually the entire center is an integrated development, with a single landlord, with coordinated and complete shopping facilities, and with adequate parking space. Some centers were established earlier, but the overwhelming majority have been built since the end of World War II.

Some important current trends and problems of shopping center development, which may be on a planned or controlled basis, are as follows: (1) The fully enclosed mall type of shopping center is growing fast. (2) In contrast to the early ones, today's centers include two to five full line department stores. (3) There is growing recognition of the necessity of careful planning and research. (4) Improved methods and devices for projecting sales volume are required. (5) The Federal Trade Commission has held that shopping center merchants and developers cannot exclude discount stores. (6) Higher real estate taxes are forcing the use of tax escalation clauses in center leases despite opposition by tenants. (7) Location of regional shopping centers adjacent to major freeways is increasing. (8) Some planned centers have located in downtown business districts. (9) Determining uniform and profitable hours of operation, including Sunday openings, remains difficult. (10) Hotels, medical centers, and office buildings are being placed in or adjacent to some centers.

Large freestanding stores. Normally located in the suburban parts of the metropolitan areas, such a store is usually a discount store, a department store, or a departmentalized specialty store. If one of the latter two, it is typically a unit of a chain or a branch of a downtown store.

Through branches, downtown stores follow their customers to the suburbs. Branches attract business because of the "parents'" prestige and also acquire new customers on their own. The nonmerchandising departments of the parent store are able to perform additional work, such as accounting and advertising, without a substantial increase in total overhead cost. Branches, including those in shopping centers, now produce about 75 percent of traditional department store sales.

Branch stores, however, are not without their problems. Sometimes they cut substantially into the sales of the parent store; some are in poor locations and result in losses; and in all of them, management and control is a continuing problem.

The future of the central shopping district. The central shopping district, while declining in importance, will probably remain a significant part of our retailing structure. Many of our cities are still gaining population within their old boundaries. Urban renewal programs, downtown high-rise residential buildings, and low-cost government-subsidized housing are inducing many middle-income families to return to the cities and others to remain.

In the large cities, the breadth of merchandise assortment offered is not matched by the largest of the planned shopping centers. Downtown merchants are modernizing their stores and cooperating with transit authorities and city-federal governments to increase the attractiveness of downtown shopping. Pedestrian malls, multipurpose buildings in which stores are closed shopping centers are features of the revitalized downtowns. Express highways are being built; public transportation systems are being modernized; and better parking facilities are being provided. Presently, great optimism prevails among many merchants about the future of downtown.

Indicate whether each of the following statements is true or false by writing "T" or "F".

1. A metropolis or metropolitan area is defined as a city which has reached maturity (stable level of population).
2. The existence of numerous integrated shopping centers can be regarded as a post-World War II phenomena.
3. Branch stores have few if any problems because of their desirable location.
4. It is expected that the central shopping districts of our cities will eventually become unimportant sources of retail revenue.

Answer

1. False. A metropolis or metropolitan area consists of declining or slowly growing central city and exploding suburban area.
2. True. The majority of the integrated shopping centers have been built since World War II.
3. False. Branch stores have problems. Some are in poor locations and result in losses.
4. False. While the central shopping districts of our cities are declining in importance, it is expected that they will always be a significant source of retail sales. Many of these districts are being revitalized.

CHAPTER 4
STORE BUILDINGS, FIXTURES, AND EQUIPMENT

Learning Objectives:

After studying this chapter you will be able to:

1. Elaborate on the store building as a selling instrument.
2. Calculate the capital investment for land, building and equipment.
3. Detail common features of the newer open-front or visual front stores.
4. Characterize the features of the store interior.
5. Detail other kinds of equipment used for selling activities.
6. Explain the current uses of EDP in retailing.
7. Demonstrate the use of store modernization programs.

After a suitable location has been chosen, a building must be prepared for occupancy. This preparation involves (1) constructing a new building or making the necessary structural changes in an existing one; (2) providing adequate lighting equipment, properly colored walls and ceilings, and suitable floor coverings; (3) procuring the fixtures and equipment essential to the conduct of the business; and (4) arranging and locating the merchandise, fixtures, and equipment in such a manner that customers may be served promptly and satisfactorily at the lowest cost. The first three of these steps are discussed in this chapter.

The store building as a selling instrument

Well-designed stores are as essential to profitable operation as are good assortments of merchandise at reasonable prices. Contemporary architects recognize that "form follows function" and that store buildings must be effective selling instruments. Experience reveals that sound store planning may increase sales as much as 10 to 100 percent. Consequently, interest in better design permeates the whole field of retailing.

Land, building, and equipment expenditures

Building and land costs are high. The total capital investment in the typical retail outlets can exceed millions of dollars. Generally rising construction costs have made retailers evaluate their building plans very carefully.

Common features of the newer "open-front" or "visual-front' stores

No store building can be described as the typical one today, but common features of the newer buildings may be noted. Many have a very clean, streamlined modern appearance, and often are windowless. Stores are being designed for increased flexibility in relocating merchandise and departments; for increased sales productivity, partly by reducing the space devoted to non-selling activities; for improved internal security through greater visibility; and for easier access by handicapped persons. Changes are being made in insulation, lighting, and other energy-related aspects in view of current costs and shortages.

The store front and exterior

Since “the front often sells the store," it should reflect a going concern, not stagnation or decline, and typify the spirit of the organization and the nature of the activity within. Stability and permanence should be suggested since they create confidence and goodwill. Finally, low cost of maintenance and protection of the store's windows and interior from sun damage require attention.

Customer entrances. Entrances should be wide and inviting, with doorsills preferably at the street level. Entrances on two streets are desirable for corner locations. Doors should permit easy access with the use of revolving doors dependent on the size of the store, the expense involved, and the climate.

Show windows. As the "eyes" of the store, windows are very important. The impressions customers receive from the window displays largely determine whether or not they enter the store. Even the so-called windowless stores usually have windows at the ground level to show their wares. Formal windows are lacking (all glass), but the area immediately inside the glass front is often used for merchandise displays. The size and type of windows used are determined by the kind of store and the goods displayed.

BACKGROUNDS. Three general types of window backgrounds are used: (1) the open background, commonly found in grocery stores, candy stores, and florists' shops; (2) the semi-closed background, sometimes found in drugstores and hardware stores; and (3) the closed background, shutting off the window completely, found in the large majority of department and specialty stores.

VISUAL FRONTS. The open, or visual, store front has no formal window, and the customer looks through glass directly to the store's interior. This front enables the customer to quickly grasp the merchandise offered for sale and adds selling space to the store. It also permits greater use of natural light and creates a more open and attractive atmosphere.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. Store building design is an important consideration for the retailer.
2. Newer store buildings tend to be constructed of materials which will conserve energy.
3. The store front usually is regarded as the least important dimension of store design.

4. The open-front type of store has been found to be the most effective type of window design.

Answer

1. True. It has been shown that proper store design can have a significant effect on sales.
2. True. Newer store buildings tend to be fabricated of materials which will conserve energy due to its increasing cost.
3. False. The store front should be used to typify the spirit of the organization.
4. False. The proper type of window design must be analyzed in relation to the type of store in question and the goods displayed.

The store interior

Regardless of the reasons why the customer enters the store, the impression of the interior must be favorable. This impression is created by such factors as an open area inside the entrance, aisles wide enough to readily accommodate customer traffic, good light, ceilings of proper height, and colorful displays. Also helpful in this collection are floor, wall, and ceiling finishes; equipment and fixtures, such as lighting, elevators, and escalators; and air conditioning.

Floor, wall, and ceiling. The retailer may choose from more than 50 floor finishes made of such materials as wood, marble, tile, linoleum, rubber, and cork. The present trend is toward the newer types of vinyl and other resilient tiles because of their durability and attractiveness. Wall and ceiling finishes are dictated by considerations of attractiveness, economy, and preferences of store executives. Color combinations are also employed to emphasize the individuality and character of a store and to reduce lighting costs.

Store fixtures and equipment. The appearance of the store’s interior and its effectiveness as a retail facility are determined in large measure by the fixtures and equipment used. The terms fixtures and equipment are often used interchangeably; some retailers speak of the lights they install as light fixtures, while others refer to their lighting equipment. Here, however, we employ the term fixtures to designate those durable goods used directly in the sale, display, storage, and protection of merchandise (such as display cabinets and cases, shelves and counters), and the term equipment to refer to such other durable goods as elevators, escalators, air-conditioning units, sales registers, and delivery trucks.

Selecting fixtures and equipment. In choosing fixtures and equipment, certain factors, in addition to cost, require consideration. First is the clientele or class of trade to which the store intends to cater; second, those chosen should not divert customers' attention from the merchandise; third, they should be adjusted to the merchandise handled-its size, value, need for protection, and the methods employed to display and sell it; and fourth, the type of service rendered in connection with the merchandise.

Lighting. Cost of equipment and economy in operation are decisive factors in solving lighting problems. But the retailer is also interested in how lighting improves the store's interior and if it adds to the customer's shopping pleasure, steps up sales personnel productivity, makes self-selection easier, increases merchandise turnover, decreases shoplifting, ties in with the kind of merchandise being sold, and adds to the effectiveness of displays. In other words, lighting is a sales tool.

The technical nature of lighting makes it advisable to consult a qualified engineer to solve problems in this area.

Equipment for handling vertical customer traffic. Handling vertical customer traffic, especially during peak periods, is a problem for retailers operating on more than one level. Stationary stairways are adequate for many stores with just a basement or perhaps only one floor above the street level. Other stores, however, find they must install elevators and escalators or moving stairways.

Escalators were long considered as unsightly, impractical equipment, yet today they are a must in the larger stores. Improved design, streamlined effects, and inlaid lighting have contributed to this growth. Their advantages over elevators are that they eliminate waiting for elevators and reduce congestion and crowding, thus saving the customer's time and energy; provide fast and comfortable transportation between floors and afford a view of adjacent merchandise; and occupy less space than elevators and require no operators.

Air conditioning. Air conditioning is prevalent in stores in all parts of the country today, but energy problems are imposing some limitations upon its full utilization.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. The term “fixtures” is distinguished from the term “equipment” in that the former directly benefits the sale while the latter indirectly benefits the sale.
2. A specialist should be employed to aid in the design and the implementation of the lighting plans of a store.
3. The use of escalators has declined in recent years.
4. Air conditioning is a necessity and is utilized fully in order to maximize sales**.**

Answer

1. True. Fixtures are used directly in making the sale, while the benefits derived from equipment only indirectly affect sales.
2. True. The technical nature of lighting makes it highly desirable to consult a qualified lighting engineer to ensure satisfactory results.
3. False. Escalators have become more popular in recent years. They have several advantages over elevators.
4. True. Air conditioning is prevalent in all parts of the country, but is being used on a more limited basis due to energy problems.

Other kinds of equipment

Equipment for selling activities. Exclusive of service equipment, many other kinds of equipment are required by retailers. The types and amounts will vary among stores and departments according to needs and conditions, but weighing and measuring machines or scales are essential in most stores.

***Equipment for sales-supporting activities*.** A wide range of equipment is necessary in these activities. It includes (1) mechanical equipment used in receiving, marking, checking, and delivery rooms, such as small floor trucks, movable marking tables, price-ticket machines, marking machines, and belt conveyor systems; (2) laborsaving devices used in the general offices for handling correspondence and other clerical work; (3) store communication devices, such as call systems for store executives, and private telephone systems; and (4) miscellaneous equipment-time clocks, signature-recording machines for time-keeping purposes, and sewing and textile-repair machines in workrooms.

CURRENT USES OF IT IN RETAILING. The use of information technology (IT) in retailing is increasing. Such a system provides a rapid means of assembling and storing a great amount of data, processing these data in the manner desired, and printing the results. IT can do many things for the retailer. It affords a steady flow of data on such matters as (1) sales by departments or stores and by individual items broken down by price lines, sizes, colors, or other factors; (2) inventories; (3) expenses; (4) purchases; (5) accounts payable; (6) accounts receivable; (7) gross margin; and (8) returned goods. Clerical work can be minimized and speed and accuracy maximized by using IT to prepare payrolls, to automatically reorder certain items, to supply open-to-buy reports, and to prepare checks for merchandise and other purchases. Eventually, retailers expect that with IT the desirability of a store location may be analyzed, the most efficient truck routing determined, and a judgment on the advisability of adding a new product may be secured.

Certainly the retailer should precede the purchase or "time sharing" of IT with a careful study of needs, exercise great care in retraining employees to think in terms of the new machines, and not expect the new equipment to serve as a panacea for all problems. It should be remembered that IT is aids to judgment and should only be used when the extra speed, precision, or laborsaving they provide exceeds their cost. Nevertheless, automation of information processing is a way of life in retailing.

Store modernization

Because of the high cost of new buildings and because many existing older locations are still viable, retailers frequently resort to remodeling or recycling existing stores. Remodeling refers to the modernization of a company's own buildings, and recycling refers to the renovation of stores acquired from other firms. In either case the aim is to improve attractiveness and efficiency of operations.

Modernization programs. In modernizing stores, even quite simple changes, as new store fronts or improved windows, often result in substantial sales increases. More extensive programs, such as new facades or replacing existing interiors with modern designs and materials, also produce desirable results. Large stores center attention on elevators, escalators, air conditioning and improved illumination; while smaller ones emphasize better lighting, more attractive windows, and, to a lesser degree, air conditioning.

Future prospects

The projected increase in our population, urban renewal programs, and the growth of shopping centers and freestanding stores suggests that the present new store building boom will continue if sufficient funds are available in the capital markets. Despite high break-even points, narrowing profit margins, and the high cost of modernization, today's merchants are convinced that improved buildings and better equipment are essential to preserve their profit margins. Modernization is also encouraged by the development of new materials and equipment.

Most small retailers will probably continue to operate as they have in the past because of the cost of making extensive structural and equipment changes. The more progressive ones, however, will modernize their stores to increase their attractiveness to customers and their efficiency as selling instruments.

Indicate whether each of the following statements is true or false by writing "T" or "F".
1. EDP equipment is being employed to do the "thinking" for the retailer.
2. A feasibility study should be conducted before obtaining a computer.
3. In recent years a significant portion of the capital expenditures for the retail industry has been for modernization of existing stores.
4. The present boom in new store opening is expected to continue into the future.

Answer
1. False. EDP equipment is being employed to do the "computing" for the retailer; the retailer still has to do the "thinking."
2. False. Computers are necessity. How big in capacity and storage and how fast should be an issue.
3. True. In recent years, a significant portion of retailing's capital outlays has been for modernization.
4. True. It is expected that the new store building boom will continue, if sufficient funds are available in the capital markets, due to the projected increase in our population, urban renewal programs, and the growth of shopping centers and free-standing stores.

CHAPTER 5
ARRANGING THE STORE'S INTERIOR-LAYOUT

Learning Objectives:

After studying this chapter you will be able to:

1. Define the factors affecting layout.
2. Identify the sources of information on layouts.
3. Explain the display concept for self-selection and self- service.
4. List and give examples of favorable elements of a self-service operation.
5. Identify the unfavorable elements of a self-service operation.

Definition of and factors affecting layout

A store's layout refers to the arrangement of equipment and fixtures, merchandise, selling and sales-supporting departments, displays, aisles, and checkout stands, where needed, in proper relationship to each other and in accordance with a *definite plan.* It is affected by such factors as (1) the size and shape of the space to be occupied, including the number of floors; (2) the location of the unloading dock or area, elevators, escalators, and other permanent installations; (3) the kinds and amounts of merchandise to be handled; (4) the type of operation to be employed, such as self-service; (5) the characteristics and buying habits of the clientele to be served; (6) the nature and quantity of the fixtures and equipment to be installed; and (7) the personal preferences of the retailer.

Layout procedure

In considering the factors mentioned, the retailer will seek a layout designed (1) to make the store attractive, inviting, and convenient to the customer; and (2) to provide the most efficient utilization of the space. Their accomplishment necessitates a logical procedure. Appropriate steps include a survey of space requirements based on potential sales and inventory characteristics; a review of the characteristics of adequate layouts; visits to other stores; the securing of recommendations from equipment and fixture manufacturers, merchandise resources, store engineers, and architects; and the tentative location of selling and sales-supporting departments on paper. Any layout should be flexible enough to allow for adaptations to the changing needs of both the customers and the retailer.

Survey space requirements. This step requires an estimate of sales, both immediately and in the future. Such a figure can be used to determine the minimum square footage of the store by dividing into it a reasonable projection of sales per square foot, information available from the store's previous experience (if any), trade associations, and studies reported in trade papers.

A valuable guide in analyzing space requirements is a checklist of the merchandise, functions, and facilities for which space must be provided. This checklist should include the following:

1. Merchandise departments, including space for storing, displaying, and selling goods in appropriate fixtures and on shelves.
2. Sales-supporting departments of all types—receiving and marking, reserve stock, deliveries, returns and adjustments, storage of supplies, and similar activities.
3. Comforts and conveniences for customers and employees.
4. Office space.
5. Workroom space.
6. Heating, lighting, air conditioning, and ventilating equipment and fixtures.
7. Stairways, elevators, and escalators.
8. Aisles wide enough to permit free flow of customer traffic.
9. Window space adequate to display kinds of merchandise carried.

Review characteristics of good layouts. The characteristics of a good layout, from the customer's viewpoint, require careful review. Customers want attractive surroundings, convenient access to merchandise, wide aisles, related merchandise together, privacy for fitting garments, daylight to judge color of certain merchandise, and infrequent changes in location of departments.

Other layout considerations are also important. Night and Sunday openings, shorter hours, and the higher rates of pay may require a layout increasing employee productivity. Consequently, an arrangement designed to speed up sales transactions and to reduce the walking necessary for customers and salespeople should be sought. A layout's relation to profit is suggested by the practice of placing high-margin merchandise where it gets maximum customer exposure.

Layout checklist. Many retailers have developed their own checklists to ensure consideration of all major factors affecting store layout, just as they do in analyzing space requirements. Such action has much to commend it, provided sufficient detail is included.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. A store’s layout should be regarded as a fixed arrangement for equipment and fixtures.
2. A projection of sales can be used to estimate the area of floor space required to support such a level of sales.
3. An important consideration in layout modifications is that customers desire frequent changes in the location of specific departments.
4. Store layout should be designed in light of potential future expansion.

Answer

1. False. A store's layout should be designed as a *flexible* arrangement of equipment and fixtures. It should allow for adaptations to the changing needs of both the customers and the retailers.
2. True. An estimated sales figure can be used to determine the minimum required square footage for the store through the use of a standard sales-per-square-foot measure. Such a projection is available from the store's previous experience, trade associations, and studies reported in trade papers.
3. False. Customers desire *infrequent* changes in the location of departments.
4. True. Store layout should be amenable to future expansion.

Sources of information on layouts

Study of available literature on store arrangement is invaluable to the retailer. The U.S. Department of Commerce, including the Small Business Administration, trade associations and trade magazines, equipment manufacturers, and periodicals such as the *Architectural Record* provide numerous services useful in solving layout problems.

Visit new stores of same type. Visiting new and recently remodeled stores similar to their own and observing the layouts and flow of traffic enables retailers to judge the wisdom of arranging their stores along similar lines.

Secure recommendations from outside sources. Advice of this nature from manufacturers of equipment and fixtures, as well as sources of supply of merchandise, constitutes a valuable guide in deciding upon the arrangement of the store's interior. These firms are well experienced in solving layout problems.

Locate selling and sales-supporting department. This action involves three major considerations: (1) providing the best possible customer service, (2) effectively coordinating the selling and sales-supporting activities, and (3) maximizing the selling area in relation to that given to other functions. The basic objective, of course, is to increase sales and minimize expenses .

Locating particular departments is commonly done through the preparation of diagrams or blueprints because of the convenience afforded in visualizing relationships and the ease with which changes in plans may be made. Wide variations exist in the value of space in various parts of the store, including sections of a single floor and different floors. Equitable assignment of values to specific areas or sections continues to plague management. These values are based upon management's estimate of sales and profit possibilities of each area. Generally speaking, they decrease from the front to the rear of a one-story building and as one moves away from the traffic lanes. In multiple-story structures, the values assigned to each floor decrease as the height increases.

Layout flexibility. Flexibility to make future changes in layout is necessary because of shifting seasonal demands, changes in buying habits and tastes of customers, and new policies and practices of competitors.

Display

Since an effective layout facilitates sales, display considerations are inseparable from layout. Display simply means exposure of goods to customers to facilitate observation, examination, and selection. A study of over 300 shoppers in New York City stores revealed that about one third of them entered these stores with no intention to buy, but attractive merchandise displays induced over half of this group to make purchases

Interior displays. The type of interior display for a specific item depends upon such merchandise characteristics as perishability, bulk, value, breakage, packaging, danger to customers, attractiveness, and salability.

Wide differences exist among retailers in planning their interior displays and in the frequency with which they are used. Discount houses and food and drugstores, for example, make extensive use of merchandise islands—tables, counters, cases, or a small group or any or all of these—upon which goods are displayed and which are surrounded by adequate aisle space. Shelves and racks are also used extensively to display wares, with less frequent use of closed display fixtures, such as cabinets or cases. Jewelry and camera stores and others handling expensive merchandise enclose their displays to provide protection.

Food stores place considerable emphasis upon displays as silent salespeople and upon talking signs, mass displays, and dining-room displays.

Other types of retail stores are guided in their display problems by such considerations as (1) the type of product—its value, size, and appeal; (2) the purpose of the display, that is, to sell or to create prestige; (3) suitable location; (4) attractiveness; and (5) desired frequency of change of display.

Exterior displays. Today, a strong trend exists toward use of exterior displays. Branch department stores, discount houses, home and garden stores, and supermarkets typically use part of their parking areas for displays of lawn and garden supplies and tools, and plants and shrubbery. Christmas trees and other seasonal items. Outside displays offer such advantages as (1) inexpensive selling space, (2) opportunity to show additional merchandise in natural settings, (3) a place for bulky and untidy goods, (4) visibility to a greater number of potential customers, and (5) customer convenience.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. The sources of information regarding store layout are quite sparse.

2. There is a hierarchy of values for the various locations of space throughout a store.
3. It has been found that a store's use of displays can affect its customers' buying habits.
4. Exterior displays generally are limited to nonperishable goods.

Answer

1. False. There are innumerable sources of information regarding store layout design. The U.S. Department of Commerce (including the Small Business Administration), trade associations, magazines, equipment manufactures, and periodicals are some of these sources.
2. True. It is recognized that the location of a given area within the store is a prime determinant of its profitability. Generally, values decrease from the front to the rear if a one-story building and as one moves away from the traffic lanes. In multiple-story structures, the values assigned to each floor decrease as the height increases.
3. True. The proper use of displays has been found to affect the amount of impulse buying by a store's customers.
4. False. Exterior displays rarely are used for nonperishable goods.

Self-selection and self-service

When a store is operated on a *self-selection* basis, merchandise is so displayed and arranged that the customer can make a selection without the aid of a salesperson. Typically, open display shelves and tables are used, frequently supplemented by racks, stands, and islands. Once the selection is made, the merchandise is usually handed to a nearby salesperson, who takes the necessary steps to complete the sale.

Under *self-service* operation, the customer not only makes the selection but brings the goods to a checkout stand for payment and wrapping or sacking. Credit, delivery, and other special customer services commonly found in service stores are not ordinarily offered. Technically speaking, the term self-service store should refer to one with all of its sales on this basis, but many stores described by this name do considerable business on a service basis.

Requirements for self-selection and self-service. Sound merchandising decisions should be made in advance regarding the following factors: (1) the basic stocks to be carried with particular reference to styles, types, price lines, sizes, and colors; (2) the amount of space that will be required for each style, size, and price line; and (3) the extent to which feature items will be used and the importance that will be given to them. In addition, careful attention should be devoted to fundamental considerations such as appropriate fixtures, the flow of customer traffic, adequate checkout facilities, balanced assortments of clearly priced merchandise, proper directional and locational signs, attractive packages, cooperative personnel well trained in their new duties, and proper supervision to ensure satisfactory customer service and minimize pilferage.

The arrangement of a store for self-selection or self-service operation is motivated by the same elements that determine the layout of any store—attractiveness and convenience for the customer, exposure of merchandise for sale, and satisfactory sales volume and economical operation. Whether a new store is being opened or the conversion of a service store is being weighed, the favorable and unfavorable elements of the self-selection and self-service plans should be studied. So far as self-service is concerned, these elements, many of which are also applicable to self-selection, are as follows:

Favorable elements of self-service operation.

1. The usual wider aisles with fewer obstructions encourage circulation of customers and minimize traffic congestion.
2. Many customers prefer self-service because it enables them to leisurely examine merchandise, make selections based on their own judgment, and minimizes their dependency on salespeople who may lack the helpfulness expected.
3. Fewer salespeople and other personnel are required, thus reducing selling expenses and HR problems.
4. Economies in operations make possible selling at lower prices and making appeals on this basis.
5. Self-service arrangements permit larger and better displays of merchandise which contributes to greater sales.
6. Customers of self-service stores purchase more at one time, both in amount and variety, than patrons of other stores.
7. The arrangement of a self-service store causes customers to recognize that the management is alert and is familiar with new developments in merchandising.

Unfavorable elements of self-service operation.

1. Since a self-service arrangement usually requires more floor space for a given sales volume than the counter-service plan, the physical makeup of the store-its size, shape, and location-may not be adaptable to self-service.
2. Many customers prefer to be served by salespeople and dislike having to locate specific merchandise and bring it to the checkout counter.
3. The large sales volume of some stores creates congestion at checkout points especially during rush periods.
4. Since self-service arrangement and operation are most successful in stores catering to middle- and low-income groups and offering well-known brands of packaged merchandise, retailers appealing to higher income groups, with unadvertised goods not customarily packaged, find it difficult to operate profitably on the self-service plan.
5. In self-service food markets, at least, customers expect adequate parking space, and providing such space in urban areas is difficult because of traffic congestion and often is costly.
6. Shoplifting and common thievery are easier and more prevalent in self-service stores, and losses are greater.
7. Certain types of products, such as mechanical durable goods and drug prescriptions require the advice and service of salespeople.

8. An impersonal atmosphere prevails in the large self-service store, and the shopper may fail to develop any emotional attachment or loyalty toward it.

Future of self-selection and self-service operation. The recent tremendous increase in self-selection and self-service seems likely to continue in the foreseeable future. But all conversions of traditional stores to self-selection and self-service, however, are not and will not be successful. Checkout operations are not easily applied to designer clothing and big-ticket electronics items.

The future of self-selection and self-service will depend mainly upon (1) the continued willingness of customers to serve themselves in return for the savings they realize on their purchases; (2) improvements in fixtures, displays, and package design; and (3) the conviction of store managements that these methods afford excellent opportunities to increase sales, reduce store expenses, and enhance their profit possibilities.

Indicate whether each of the following statements is true or false by writing "T" or "F".

1. Self-service stores rely less on personal selling than do self-selection stores.
2. Self-service operations encourage impulse buying.
3. Many customers dislike the limitation of service in self-service operations.
4. Certain type of merchandise are not compatible with the self-service plan.
5. Shoplifting is less prevalent in self-service stores.

Answer

1. True. The sales personnel are more removed from the customer in self-service stores than in self-selection stores. Both bases involve the selection of merchandise by the customer, but in the self-service operation the customer also brings the goods to the checkout stand.
2. True. Self-service store customers shop in a more leisurely manner and examine more merchandise. This type of operation enhances impulse buying.
3. True. Some people dislike the limitations of service of the self-service plan. They prefer to be served by salespeople and dislike having to locate specific merchandise and bring it to the checkout counter.
4. True. High fashion and high-value goods have been found to be better marketed through greater personal selling efforts than self-service plans provide.
5. False. Shoplifting and common thievery are easier and more prevalent in self-service stores.

CHAPTER 6
STRUCTURE OF RETAIL

Learning Objectives:

After studying this chapter you will be able to:

1. Define the organization’s structure.
2. Detail the organization of small stores.
3. Outline the organization of large stores.
4. Identify the common characteristics of chain store organizations.
5. Elaborate on the major trends in store organization.

The structure of a retail organization will vary with such factors as size, kinds of merchandise sold, services rendered, and preferences and desires of the executives. It should be flexible enough to meet changes in fundamental conditions when they occur.

Meaning of organization

Organization has been defined in various ways. According to one expert an organization is "a structure or network of relationships among individuals."

An understandable approach to the term is to examine its four component parts or aspects. These include (1) arranging the activities to be performed into convenient groups for assignment to specific individuals; (2) selecting the personnel to whom the activities will be assigned; (3) assigning responsibility and commensurate authority for each group of activities; and (4) controlling and maintaining harmonious adjustment among the individuals to whom responsibilities are assigned. Three of these are considered in this chapter; the selection of personnel is discussed along with other factors in the two following chapters.

Organization charts. The purpose of such charts is to indicate the grouping of the functions of a business and the lines of authority and responsibility. Charts aid clear thinking and proper coordination of activities; they are indispensable in visualizing the company as a whole and the relationships among functions and individuals. There is danger, however, that an organization chart will be mistaken for an organization. Even a fine-appearing chart will not ensure effective functioning. Business organizations consist of human beings with different personalities working toward desired goals. Concentration on an organization chart may result in neglect of these personalities and the factors influencing the behavior of individuals, singly and in groups. Moreover, retailing is a fast-changing business; consequently, frequent revision of the organization chart is a must.

Before discussing the structure of stores of different sizes, three points need emphasis. First, since "organization is squarely based upon a systematic and clearly understood division of labor," the organizational task differs greatly between small and large retailers. Second, the organizational task is never completed because growth or decline in activities is almost constant. Third, good organization has a very definite value to the retailer. It defines the relationships of the various departments, specifies each unit's authority and function, determines responsibility for the various objectives of the firm, encourages specialization of effort and the development of skill in particular tasks, facilitates planning, reduces waste effort, and increases productivity.

Organization of small stores

In small stores the proprietor performs numerous buying, selling, and allied activities which in the large store are divided among several individuals. This difference in specialization is one of two distinguishing structural features between small and large stores. The second relates to the number of activities carried on. The activities performed by small stores and their degree of specialization are shown in Figure 1.

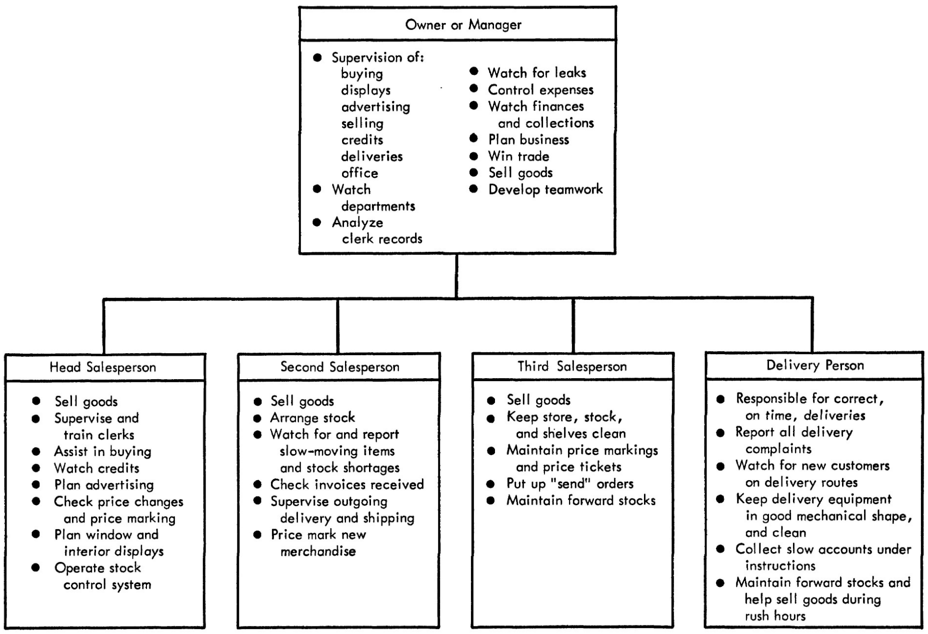
As stores increase in size, greater specialization becomes necessary; such operating activities as store maintenance, adjustments, and deliveries are separated from the merchandising activities of buying and selling, thus creating a two-function structure. Two staff officers—a combination treasurer-controller and a HR director—are also created who report to the general manager. The main advantages of this structure are its simplicity, its separation of the personnel job from operations, its centralization of responsibility for control activities in the treasurer-controller, and its unification of buying and selling activities.

Departmentalizing. As small stores become larger, it is increasingly difficult for proprietors to maintain close contact with each line of merchandise; consequently, they departmentalize by dividing their merchandise lines into groups known as departments and operating each more or less as a separate unit. In this process the retailer usually proceeds as follows: (1) takes a physical inventory of the stock and separates it into well-defined and related groups of merchandise; (2) decides upon the departments; (3) assigns to each department a definite location within the store and assembles the necessary merchandise there; (4) determines the expenses chargeable against each department and the bases upon which they will be prorated; (5) computes gross margins attainable for each department; (6) provides for the recording of purchases, returns to vendors, sales, returns by and allowances to customers, and markdowns by departments.

When done properly and carried on systematically, departmentalizing enables a retailer to become better acquainted with the detailed merchandising activities of the business, improve business operations, and produce better profits.

Problems in departmentalizing. Although merchandise is normally departmentalized in additional groupings, two problems arise. Some borderline items are difficult to classify (e.g., do shower slippers belong in the shoe department, sporting goods, or notions?). Moreover, the traditional groupings are inconvenient for the customer who needs a collection of items for a specific purpose. Under traditional departmentalization a skier would go to the sporting goods department for skis, sports wear for ski pants, and optical goods for goggles. So some stores assemble all these items in a ski shop and similarly create other special-purpose departments. But this builds duplicate inventory since most of the items involved must also be carried in the traditional departments for customers who want them for other purposes.

FIGURE 1
ORGANIZATION OF A SMALL STORE



Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. A good organization structure should be rigid so that it will be strong and can survive changes in the environment.
2. An organization chart is a dynamic device that must constantly be updated.
3. Small independent stores are characterized by little specialization.
4. Departmentalizing merely consists of physically separating the merchandise into homogeneous grouping.

Answer

1. False. An organization structure should be *flexible* enough to meet changes in fundamental conditions when they occur.
2. True. The organization chart must be constantly revised since retailing is a fast changing business.
3. True. Small stores do not have enough staff positions to permit any significant degree of specialization.
4. False. Departmentalizing also involves administrative and organizational recognition of the department's autonomy. Convenience of the customer in another consideration.

Organization of large stores

The organizational problems and practices of large retail firms may be illustrated by using department stores and chain stores.

Department store structure. The typical organization among smaller department stores is a two-functional setup which separates merchandising and operating activities, but in medium- and large-size department stores the four-function plan is widely accepted today. This plan, often called the Mazur Plan, classifies department store activities into four groups: merchandising, publicity, store management or operation, and accounting and control.

1. *Merchandising division*. The responsibilities of this division are centered in buying and selling activities under a vice president or general merchandise manager who supervises merchandising activities in all locations. Its major functions include the following; (a) interpret and execute the merchandising policies of the company, (b) assist buyers in performance of their tasks, (c) establish and administer a merchandise control system, (d) cooperate with the publicity division in planning sales promotions, (e) supervise departmental activities of buyers, and (f) plan and supervise comparison shopping(unless assigned to the publicity division).
2. *Publicity division.* This division, under the publicity or advertising manager or vice-president, is responsible for all selling efforts not classified as personal selling. Its chief responsibilities include *(a)* all forms of advertising and display, (b) planning and executing sales-promotional events (in cooperation with the merchandising division), (c) advertising research, and *(d)* public relations.

3. *Store management or operating division.* Headed by the store manager or operations vice president, this division covers a greater variety of activities than any other. Those for which it is usually responsible include (a) store maintenance (b) customer service; (c) operating activities; (d) purchasing of store supplies, equipment, and other property; (e) store and merchandise protection; (f) HR activities; and (g) workrooms.
4. Control division. This division is headed by the controller or by the treasurer. The chief tasks of this officer, known as the "watchdog of the treasury," are to protect the company's assets and to provide adequate working capital to meet the needs of the business. This division is responsible for (a) all accounting records, (b) physical inventories, (c) credits and collections, (d) merchandise budgeting and control (in cooperation with merchandising division), (e) expense budgeting and control, (f) insurance (often the responsibility of the treasurer), (g) compliance with governmental rules and regulations, and (h) preparing reports for general management and for governmental agencies.

Separation of buying and selling responsibilities. The Mazur Plan combines buying and selling in the merchandising division with each department's head being responsible for both activities. However, the growth of branch stores made it difficult for the buyers to oversee sales activities conducted at numerous dispersed locations, and so has tended to force separation of buying and selling responsibilities. When physically possible, combining buying and selling has the following advantages: (1) it permits fixing responsibility for department profits, (2) the buyer of merchandise should be responsible for selling it, (3) the buyer needs customer contacts to learn their needs, (4) the buyer is best qualified to convey merchandise information and enthusiasm to salespeople, and (5) it is too costly to develop section managers as selling heads of departments.

REASONS FOR SEPARATION. Nevertheless many department stores are currently separating buying and selling responsibilities for the following reasons: (1) as noted above, the two activities may be physically separated; (2) buying and selling are different jobs, requiring different abilities, personalities, and training; (3) suitable emphasis on selling is possible only when the sales organization is separated from buying; (4) separation of buying and selling works in chain stores; (5) merchandise control records permit coordination without centralizing responsibility in one person; (6) new grouping of merchandise for selling purposes suggest that the assortments best suited to sales promotion may not be those best suited to buying; (7) separation of buying and selling makes it easier to shift salespeople among departments as required; and (8) efficiency in buying may dictate combining purchases for several departments and leaves little time for the buyer to handle selling.

GENERAL MANAGEMENT. The prime functions of the general management are to direct, to correlate and coordinate, and to control the activities of the four divisions through their respective heads so that the business will operate effectively and yield a profit.

STRUCTURE FOR BRANCH OPERATION. The establishment of branch stores, which now account for about three quarters of the total sales of department stores, has created a major organizational problem. No single solution has emerged, but three general patterns are evident.

1. *"Brood* hen *and chick" organization.* This concept means that the parent store organization operates the branch. The parent publicity director advertises for the branch; the controller and store superintendent perform their functions for both parent and branch store; and parent store buyers or department managers are responsible for all buying.
2. *“Separate* store” *plan.* As branches increase in number and size, a few firms have tried to treat each branch as a separate store with its management and buying staffs organized on the same basis as the parent.
3. *“Equal store" structure.* This, the most popular plan (similar to chain store organization), treats the parent store as another branch. Store managers are responsible for headquarters staff. Sometimes store and headquarters officials share merchandising duties.

Chain store organization

Common characteristics. Although chain store companies vary in organization structure handled, services performed, size of individual units, and territory covered, they usually have certain characteristics, as follows:

1. Centralization of major responsibilities in the home office, whether organized on a national, regional, or local basis, the chief exception being decentralization of selling.
2. Breakdown of the organization into more main divisions than department stores, such as real estate and maintenance, merchandising (including buying), sales promotion, retail operation, personnel, control, and, perhaps, warehouse operation, traffic, and transportation.
3. Recognition of the importance of the HR division by appointing a HR director as a major executive.
4. Employment of trained and capable executives to direct each of the companies divisions.
5. Provision for close supervision and follow-up of activities in individual stores.
6. An elaborate system of reports to keep headquarter's officers promptly informed on results of operations and permit effective control.

Some of these characteristics are illustrated by a variety store chain.

Responsibilities of major executives in a variety store chain. The president of this organization is charged with the overall administration and coordination of the company’s activities. The general counsel provides legal advise, and the research manager conducts studies for the president. The treasurer is responsible for handling company funds, making arrangements for financing and for insurance.

Among the operating divisions, six officers report to the president. The controller's responsibilities are similar to those of department store counterparts, and the advertising director plans and initiates sales promotional campaigns and prepares the advertising budget.

The merchandise manager concentrates on buying merchandise and supplies, establishes retail prices, prepares merchandise bulletins for store managers, and is in charge of company-operated warehouses and supervision of shipments.

Operation of the retail units falls to the director of retail operations, although the director of real estate and maintenance is responsible for obtaining the stores, planning layouts, installing fixtures, and maintenance. District managers report to the retail operations director, and each store manager to the manager of his or her district. The HR director performs duties comparable to those in a department store.

Indicate whether each of the following statements is true or false by writing "T" or "F".

1. The Mazur Plan classifies department store activities into two groups: merchandising and operations.
2. The credit-granting function is typically placed in the hands of the merchandising division.
3. An equal store structure is characterized by a complete decentralization of management functions
4. Chain store organizations are noted for loose supervision of their units.

Answer

1. False. The Mazur Plan classifies department store activities into four groups: merchandising, publicity, store management, and accounting and control.
2. False. The credit function is typically the responsibility of the control division.
3. False. Under an equal store structure major management functions such as buying are concentrated at a single headquarters.
4. False. Chain store organizations are noted for *close* supervision of their units.

Major trends in store organization

Decentralization. Significant structural developments are taking place in retailing, particularly in multiunit companies. One of these in the chain store field is toward decentralization of buying, selling, and sales promotion activities. In some cases—the Kroger and Safeway firms— a report on specific sales personnel usually made by a person whose business it is to shop stores and turn in an analysis— divisional headquarters have been established to carry out these activities for a group of stores. In others, the store (district or zone) manager has been given more authority.

Sears Company divided its stores into five territorial groups, with each group under a regional vice president. Each executive had considerable autonomy within a geographic area and, as a director of the company, also assisted in overall policy determination. At Montgomery Ward & Company, retail stores and catalog offices were regrouped some years ago in order to carry out the company's philosophy of decentralizing operations, providing the district managers with the flexibility and authority needed to develop strategies and tactics for increasing the company's competitive position in their particular geographic marketing areas.

Centralization. Multiunit retailers oscillate between decentralization and centralization. Decentralization provides greater adaptation to local market variations and develops the store managers' initiative. Centralization provides the economies of specialization, eliminates duplicate decision making, and creates a consistent company image. Computerized information technology facilitates central decision making.

Growing responsibilities of HR director and controller. Problems in connection with personnel-brought about by efforts to improve employee productivity, attempts to unionize employees, shorter hours and increased wages, night and Sunday openings, branch stores, and social security legislation-have increased the importance of this activity. As a result, many firms are making the director of HR a major executive responsible directly to the general manager. And changes in our social security vs. sales taxes, increased credit selling, application of EDP to retailing, and revisions of federal income tax law have increased the controller's obligations and stature.

Enlarged staff ***services.*** In large stores, staff services continue to expand in usefulness and in personnel. Comparison shopping, planning, public-relations, research, and fashion coordination all growing in importance. Market research bureaus have been added, and some progressive stores are appointing consumer relations advisors. Their place in the organization structure varies

High-level policy committees. These committees, designed to help top management and company directors reach major policy decisions, are usually composed of key executives plus, perhaps, an outside consultant and one or two board members. They are not new in the retail field, but their value is being increasingly recognized.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. Some organizations in the chain store field are decentralizing some of their most vital functions.
2. All retail organizations currently subscribe to the philosophy of maximum decentralization in operations.
3. Personnel relations problems in retailing have diminished in importance.
4. As an economy move, staff services have a reduced magnitude.

Answer

1. True. Some firms in the chain store field are decentralizing their buying, selling, and sales promotion activities.
2. False. Some firms in the retail field, especially department stores are attempting to reap the economies of chain store operation through greater centralization. Many chains are going back to more centralization.

3. False. They have become so important that the director of HR has been elevated to a higher position in the organization.
4. False. They have been enlarged. Some stores have added market research bureaus and consumer relation advisors.

CHAPTER 7
RETAIL HUMAN RESOURCE MANAGEMENT

Learning Objectives:

After studying this chapter you will be able to:

1. List and explain the objectives and functions of human resources management.
2. Formulate human resource policy.
3. Outline the steps to recruit an adequate work force.
4. Construct and implement an employee training program.
5. Develop a program to compensate retail personnel.
6. Create a compensation program for managerial personnel.
7. Formulate a job evaluation method.
8. Evaluate personnel performance.

Human resource management (HRM) objectives and functions

Human resource management (HRM) involves the handling of the various problems connected directly with the retailer's employees. It includes selecting, training, and compensating employees; maintaining adequate performance; carrying out appropriate service activities; and satisfactorily adjusting employees' complaints.

Retail firms have become more HR-conscious because of several factors: government support for labor; legislation requiring collective bargaining; unionization of employees; federal and state wage and hour laws; social security and occupation legislation; state unemployment insurance laws; employee demands for numerous fringe benefits; and legislation banning job discrimination based on race, color, religion, sex, age, or national origin. Furthermore, there has been a growing awareness and conviction among retailers that (1) good people bring good results; (2) customer goodwill is essential to repeat business; (3) improvement in all phases of human relations is necessary; (4) many inexperienced employees must be hired; (5) the rate of employee turnover is high; (6) costs of executive training and replacement are substantial; (7) large numbers of part-time employees may be used; (8) expansion necessitates additional trained HR; (9) the wage-to-sales ratio is high, constituting more than half of store expenses; (10) various kinds of abilities are needed; and (11) employees' reasonable demands must be met.

HR policy areas

Among the areas in which definite HR policies should be formulated are these: (1) authority and responsibility of the HR division and its relationships with other divisions; (2) using HR planning, job studies, and job specifications to determine number and type of HR needed; (3)

recruiting HR and developing sources of supply; (4) selecting HR number and types of interviews, use of tests, and similar devices; (5) induction of new employees; (6) training methods and content of training for new and existing human resources; (7) compensation and compensation methods; (8) salary supplements for employees including discounts on purchases; (9) working conditions-- hours of work, number of days per week, and vacations; (10) employee cafeterias and lunchrooms; (11) promotions, transfers, and terminations; (12) HR reviews and ratings; (13) HR complaints and methods of handling them; and (14) unions and labor organizations.

Recruiting

Recruiting an adequate force of retail employees involves at least four important steps: (1) making careful job analyses and preparing job specifications; (2) developing satisfactory sources of supply; (3) selecting qualified applicants by means of application forms, interviews, tests, and physical examinations; and (4) introducing new employees to the store and to their job. In addition, many large-scale retailers find it advisable to maintain a contingent force and a file of prospective employees.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. In recent years the human resource management function has been given more attention by retailing firms.
2. The retailing field is noted for having a high rate of employee turnover.
3. In keeping with current social trends, retailers’ employment policies are becoming more conservative.
4. Retailers’ recruiting procedures are becoming more formalized.

Answer

1. True. Human resource management has come to be regarded as a critical area for the retailing field.
2. True. Retailing traditionally has been plagued by high employee turnover.
3. False. In keeping with the current social trends, retailers' employment policies are becoming more *liberal*.
4. True. Retailers' recruiting procedures are incorporating more principles of human resource management.

Employee training

Adequate training results in more effective job performance and greater productivity; it ensures conformance with established rules and regulations, thus reducing errors and increasing customer satisfaction; it lowers selling costs both in the short run and the long run, thus enhancing profits; through better job performance, it increases the earning of individual employees; it reduces employee turnover, improves morale, and strengthens loyalty; and it simplifies management's job by lessening the task of supervision.

The training program. Broadly speaking, those trained in retail stores may be classified as follows: (1) new, inexperienced employees; (2) new, experienced employees; (3) regularly employed persons; and (4) “extras," that is, individuals employed for short intervals, such as the pre-Christmas period.

TRAINING NEW, INEXPERIENCED EMPLOYEES. Training those employed as salespeople includes describing the store's organization and explaining store policies concerning returned goods, credit, adjustments, absences from work, dress regulations, employee discounts, safety regulations, the making out of sales slips, the use of cash registers, and stockkeeping. Such training is often provided through the "sponsor” system. Sponsors are the representatives of the training department on the selling floor. One of their major tasks is morale building through regular follow-up.

For persons engaged in sales-supporting activities such as delivery workers and cashiers, the same two general training techniques are employed as for salespeople. Too often in the past, training of all rank-and-file employees has been limited to the brief initial training period. Few stores would take the trouble to give the receiving clerks or the markers an understanding of their place in the organization. This attitude led to unsatisfactory performance. More elaborate programs, sometimes including job rotation and class sessions, are often provided for junior executive trainees.

TRAINING NEW, EXPERIENCED EMPLOYEES. New employees with previous retail experience do not need as elaborate introductory training as inexperienced personnel. Some formal training is necessary, however, in regard to store organization, policies, and methods, through a few class meetings or by putting the new employee under a sponsor for a brief period.

TRAINING REGULAR EMPLOYEES. Training, of course, should be a continuous process for all employees. In the limited initial training given new employees, so much material is set forth that few absorb all of it. Follow-up instruction is also essential because even veteran cashiers (salespeople, stockroom personnel, and so on) get overconfident, careless, and forget the basic rules of courtesy, or they were just not properly trained in the first place. Other employees must be updated periodically in fashion and merchandise developments. Executives require information about changing business conditions and methods. The ambitious employee expects the company to offer promotion training opportunities, and if it does not, he or she will seek employment elsewhere.

Follow-up training often takes the form of individual conferences to discuss methods of improving the individual’s performance. If the number of employees is large, the instruction may be given through a class. Most successful retailers follow a policy of promotion from within. Such a policy builds employee goodwill for the firm and improves morale; it also attracts forward-looking employees to the firm, provides officers who are well trained in the store's policies and practices, and is a relatively inexpensive method of securing executives.

Most of the advanced training (and much of the other training as well) given by stores to employees other than executives is largely technical in nature and designed to explain how certain jobs are performed. This is important, of course; but if the interest of workers is to be stirred, training should be broader and include, for example, the significance of retailing in our economy and major trends in the retail field.

Some large retailers have *decentralized* training by teaching the operating supervisors how to perform much of this function. Special self-study programs have been developed which make use of textbooks and online courses. Leadership qualities are also emphasized, and company HR policies and procedures and their just application are stressed.

TRAINING EXTRAS. Training extras is complicated by the fact that such employees are seldom on the payroll long enough to make intensive training worthwhile; yet they may account for as much as one third or more of a store's sales. In large stores, the extras are usually given a one- or two-day cram session covering the material given to new, inexperienced employees. Then the employee is turned over to a sponsor. Other stores rely on the sponsor system, perhaps supplemented by printed material.

Appraising the training program. It is very difficult to measure the value of employee training, but some techniques are available for this purpose. Shopping-service reports—a report on specific sales personnel usually made by a person whose business is to shop stores and turn in an analysis—are used quite widely by larger retailers. The average sale, the number of errors, and the number of complaints recorded are still other indicators which, when used with caution, have some merit. HR reviews at regular intervals are also helpful.

The overall effectiveness of the training program is measured by the general morale of the store's employees, the opportunities for advancement and the extent of promotion from within, the quality of supervision, the number of customer complaints, the rate of employee turnover, and--most important—the quality of customer service and its reflection in profits realized by the store.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. A retailer’s training program should be flexible enough to handle a diverse labor force.
2. The sponsor system is being phased out of the retail field.
3. Promotion from within is discouraged in the retailing field.
4. The true test of an employee training program is its eventual contribution to profits.

Answer

1. True. A retailer should maintain a training program that can be used to develop the skills of all employees, whether they are new or old, experienced or inexperienced.
2. False. The sponsor system has proven itself quite beneficial in the development of a reliable, motivated labor force.
3. False. Most successful retailers follow a policy of promotion from within. Such a policy should be accompanied by an adequate training program for promotable personnel
4. True. In the final analysis, the main purpose of an employee-training program is to improve employee efficiency and thus profits.

Compensating retail personnel

The third essential HR responsibility involves working out compensation plans for all employees, including such managerial personnel as buyers or department managers, store managers, and key executives. It is difficult, of course, to devise any method of payment which is satisfactory to HR performing a variety of tasks requiring different skills and abilities.

Goals of a compensation plan. An ideal compensation plan should (l) keep wage cost under control; (2) minimize discontent among employees and reduce labor turnover; (3) be easily understood by employees and easily administered by management; (4) provide an incentive for better work, rewarding improved performance and penalizing inefficiency; (5) guarantee a minimum income and regular periodic payments to provide a sense of security.

Compensating salespeople. The four main compensation plans for salespeople should be reviewed in connection with the desirable requisites mentioned.

1. *Straight salary*. Under this plan the employee is paid a definite amount each payday-for example, $120 each Friday. It is the most common method of compensating salespeople, being widely used in small stores and in chain stores selling convenience goods.
2. *Salary plus commission on all net sales.* This plan provides a salary plus a relatively low commission rate, such as one half to l percent on *all* net sales.
3. *Quota bonus.* This method involves three steps: (a) Setting a weekly (or monthly) quota. Typically, the record of past sales is the basis of this decision, with adjustment for changed conditions and for seasonal fluctuations. (b) Establishing a basic weekly (or monthly) salary. This salary, often considered a drawing account, is usually based on a past wage-cost ratio adjusted in the light of competitive practices. (c) Fixing the commission to be paid on sales in excess of the quota, one considerably below the store's average wage cost.
4. *Straight commission.* Under this plan salespeople receive a specified commission on all goods they sell, varying from 3 to 8 percent of sales, depending on the merchandise, its profitableness, and season of the year.

Salary supplements for salespeople. Sometimes regular payments are supplemented by profit-sharing arrangements which may add from 10 to 15 percent to the regular salary. Prize Money (PMs) or extra commissions, discounts on purchases made in the store, cash awards for usable suggestions, special bonuses based on length of service, and pension programs are also led by retailers. Many nonfood retailers have greatly liberalized the discount privilege in recent years.

Compensating sales-supporting employees. Straight salary is most common in compensating such employees because of the difficulty of setting quotas or in finding a sound basis for commissions. Incentive plans are limited almost entirely to large retail firms. These employees, however, are usually eligible for most of the salary supplements given to selling employees.

Compensating managerial personnel

BUYERS. Some form of bonus payment, in addition to salary, is used to compensate buyers, the specific arrangement being set forth in a written contract. Methods employed to determine the bonus are as follows: (1) using a percentage of the department's total sales (such as 1 percent) or a stated percentage of the increase in sales over a quota; (2) basing bonus on increased sales plus increased gross margin or net profit over a previous period; (3) determining bonus on management's review of the departments operation during the year, in relation to the total store; (4) setting bonus on departmental net profit, either before or after federal taxes; (5) basing bonus on the department’s “contribution” that is, the dollar gross margin of the department minus specified controllable expenses; and (6) paying bonus on the departmental gross margin, such as 3 percent or more of the gross margin realized.

CHAIN STORE MANAGERS. Many chains pay their managers a salary plus 10 to 15 percent of the profits made by the store. Others base their incentive payments on sales, a common plan being a salary plus from 1 to 2 percent of sales. Still others either pay the store managers a straight commission on sales, from which they are expected to pay their employees, or base the bonus paid on the store's contribution to company profits. Frequently the percentage of bonus is paid only on the contribution above an established goal for the store.

SENIOR EXECUTIVES. The fundamental satisfactions desired by those who operate their own stores or who serve in executive positions for others are as follows: (1) financial rewards commensurate with the responsibilities of the position; (2) freedom of action within the individual's sphere of responsibility, with commensurate authority; (3) adequate title and prestige of position; (4) stability of position, with adequate provision for retirement; (5) satisfactory working quarters and conditions; (6) association with an organization that is moving ahead; and (7) a position offering a public service opportunity.

Although financial reward is not the only consideration important to retail executives, dollar compensation is significant. Small retailers commonly pay themselves a regular salary supplemented at the end of each year by withdrawals of funds if profits are satisfactory. Executives of large firms may be paid by salary only, but the incentive aspect is so important that most of them also receive some form of bonus, which may be deferred until after retirement or share the profits. Also common are option plans and insurance payments and pension plans.

Job evaluation. Job evaluation is simply a carefully worked out program for appraising the value of jobs and obtaining an equitable relationship among them. Its major objectives are (1) to implement a company policy of equal pay for equal work, thereby building employee goodwill; (2) to pay all employees in proportion to their responsibilities and the difficulty of their work; (3) to recognize monetary differentials for different quality and quantity of work, thus giving employees an incentive for improved performance; (4) to provide a basis for explaining to employees why a job is valued as it is; and (5) to establish pay rates in keeping with those for similar work in the community.

JOB EVALUATION METHODS. The methods used may be illustrated by describing the practices of one progressive store. Four major groups of factors common to all jobs are assigned weights as follows:

1. *Skill requirement factors,* including education, 10 percent; job knowledge, 15 percent; customer contact, 10 percent; personal contact (other than customer contact), 10 percent; and special aptitudes, 7 percent.
2. *Responsibility requirement factors,* including supervision, 12 percent; and responsibility, 15 percent.
3. *Effort requirement factors,* including mental effort, 9 percent; and physical effort, 6 percent.
4. *Working conditions factor,* 6 percent.

Using these factors as a yardstick, jobs are evaluated by a committee composed of the store superintendent, the HR director, the industrial engineer, the controller, the merchandise manager, and the president of the store.

Indicate whether each of the following statements is true or false by writing "T" or "F".

1. A retailing firm typically utilizes one standard compensation plan for all of its employees.
2. Salespeople receiving compensation under one of the several types of commission plans are not eligible for any profit-sharing plans.
3. Buyers typically are compensated under a straight commission plan.
4. The concept of a job evaluation program only applies to evaluating positions above the level of salesperson.

Answer

1. False. A retailing firm typically utilizes several compensation plans for its different categories of employees.
2. False. Employees' regular salary plans (*e.g.*, straight commission) are determined separately from and does not preclude their participation in profit-sharing plans.

3. False. Buyers typically are compensated under a salary-plus-bonus plan.
4. False. The concept of job evaluation should be extended to *all* positions of employment within the enterprise. In this way the value of all jobs may be appraised and an equitable relationship among them obtained.

Obtaining satisfactory personnel performance

The responsibility of human resource management does not end with the hiring and training of employees. Those hired and trained should be kept at a satisfactory performance level. This requires a suitable compensation plan preferably based on sound job evaluation; continuous evaluation of personnel; promotion, transfer, demotion, and termination of some workers; maintenance of adequate working conditions; the carrying out of certain employee service activities; and the successful handling of employees' complaints.

Evaluating personnel. Evaluation furnishes the basis for salary adjustments, promotions, transfers, and terminations; it also encourages employees to do better work. But evaluation is difficult because it depends on some factors which cannot be measured objectively. Production is important, but the employee's ability, loyalty, honesty, and attitude toward the store and their work are also significant.

Relocating personnel. Relocation of employees is common in retail stores. Some relocations result from *promotions,* others from *transfers* to a job in another store or department, and still others from *demotions* because of unsatisfactory performance.

Promotion from within an organization gives management qualified people to fill responsible executive positions and offers employees with ability an opportunity to use it. Transferring workers to another job is often advisable, since such action places them in situations better suited to their training, ability, and temperament. Some relocations are designed to broaden the background of employees and prepare them for advancement. Demotions should take place only when successful transfer is impossible. Unless goodwill is retained when demotions are made, severance is advisable.

Terminations. Terminations should usually be made only after attempts at relocation have failed. The growth of unions, the unemployment compensation provisions of the federal Social Security Act and state laws relating thereto, development of lower morale, and other factors are today causing employers to look upon terminations with increasing disfavor.

Retail working conditions. The HR department should review working conditions. Studies of lighting, heating, ventilation, rest periods, hours of work, safety, and vacations are essential. Occupational safety, pension, and other legislation must be observed. Longer store hours constitute a problem of increasing importance and require much part-time employment. Today supermarkets, discount houses, and other types of stores are open at night and on Sundays.

Employee service activities. In addition to governmental regulations governing working hours per week and requiring unemployment insurance, workmen's compensation, new pay "floors," and old-age pensions, retailers are increasingly assuming other service activities. One major retailing company probably spends $250 million each year to provide paid vacations, group life insurance, discounts on purchases, illness allowances and medical care, profit sharing, and other benefits. It also contributes several million dollars each year to social security and state workmen's compensation funds. Other retailers engage in these and other educational activities, as well as offering counseling services on a wide variety of subjects.

Handling employee complaints. Employee complaints cover a wide range of subjects- hours, wages, promotions, working conditions, fringe benefits, and tactics of other salespeople. Many retailers go to great lengths to minimize or eliminate such complaints through the employee-service activities discussed in the previous section. Others use the "exit interview" to determine the factors causing job dissatisfaction; and employer-employee committees consider difficult problems, such as improving working conditions.

Labor organizations In the retail field. Unions in the retail field are not new, but developments since the early 1930s have been most pronounced. The National Labor Relations Act (l935) specifically exempts purely local retail businesses, but it applies to all interstate firms. They may not interfere in any way with unions, discriminate against union members, or refuse to bargain with employees' representatives.

Despite a favorable legal situation and success in obtaining the closed shop and the check-off in some department and chain stores, the spread of unions has been slow. Probably less than 10 percent of all nonmanagerial retail employees are unionized. Among truck drivers, warehouse employees, elevator operators, and maintenance staffs, the percentage is somewhat higher. Today, retail unions are gaining more ground.

UNION AIMS. Retail unions have sought such goals as union recognition, the closed shop, shorter hours, higher wages, extra pay for over-time, paid vacations, health and welfare programs, grievance procedures, seniority rights, and job security. To forestall union activities, some retailers have formed their own voluntary agreements to combat union demands.

To gain higher wages, unions have supported both state and federal wage and hour laws. But the federal law did not apply to a substantial number of retail workers until 1961. Known as the Wage and Hour Law, this legislation (H.R. 3935) provided a reduction in working hours per week and established minimum wage rates for workers in the larger retail stores. It also set a 40-hour week with overtime at one and one-half times the standard rate.

MANAGEMENT RESPONSE TO UNIONS. Management's first reaction to the spread of unionism was to smash unions, but enlightened retailers soon decided to try to improve conditions and minimize grievances to meet the situation. Many have actively encouraged a degree of employee participation in management, while others are making serious efforts to acquaint employees with their labor policies, what management is already doing for them, and outlining plans for e future. For example, "jobholders' annual reports" and employee policy books are distributed to employees.

Labor developments in the retail field are still in their early stages, and unions may well demonstrate greater strength and continue to grow in the future. Since retailing is a field of relatively small establishments with close relationships between proprietor and employees, since many retail employees hope to establish their own stores at a later time, and since many employees are on part-time or temporary basis, these facts will act as deterrents to labor organizations.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. When a retail employee is judged to have performed in an unsatisfactory manner, the only remedies available are demotion or severance.
2. In many areas of retailing one of the sore points of retail working conditions is the increase in store hours.
3. Unions have a firm hold in the retail industry.
4. Retail management is currently trying to encourage unionization.

Answer

1. False. Demotion should only take place when *successful* transfer in impossible. Unless goodwill is retained when demotions are made, severance is advisable.
2. True. Increasing store hours is a current problem area for many types of retailers since it requires the use of more part-time employees.
3. False. While they are gaining more ground, unionization has not yet permeated the retail industry. Probably no more than 10 percent of all nonmanagerial retail employees are unionized.
4. False. Retail management is currently trying to reduce the areas of friction that have traditionally been the stimuli for unionization.

CHAPTER 8
MERCHANDISING POLICIES AND BUDGETS

Learning Objectives:

After studying this chapter you will be able to;

1. Develop general merchandise policies.
2. Prepare objectives for the merchandise budget.
3. Organize the elements in merchandise budgeting.
4. Identify the limitations of the merchandise budget.
5. Assign the responsibility for the merchandise budget.

Buying the right merchandise in the right quantities and at the right time and price is the heart of the retail business. Consequently, the merchant should formulate sound merchandise policies and budgets. A budget is a numerical plan expressed in dollars of merchandise cost or retail sales value, for implementing the merchandising policies. Not all stores prepare merchandise budgets, and some small retailers only budget their most important product categories. Nevertheless, budgeting is almost always advisable in view of the size and importance of the retailer's expenditure for goods.

General merchandise policies

After deciding what kind of store to operate (for example, shoe shop, supermarket, clothing store), the merchant must determine many basic characteristics of the merchandise mix. Will the assortment be wide or narrow; will it feature advance styles or conventional ones, high-priced or inexpensive items, national or private brands; will it appeal to young or mature consumers? Decisions will also have to be made about the choice of suppliers and about relationships with them. The considerations affecting these decisions are discussed more fully in Chapters 9-11. But the answers to these and similar questions primarily depend upon customer tastes and preferences evaluated in relationship to the retail organization's own capabilities and the strengths and weaknesses of competitors.

Over time some merchants will profitably add lines from other kinds of retail businesses just as supermarkets added health and beauty aids that once were sold exclusively in drug and department stores. This deep-rooted process of addition is called *scrambled merchandising*.

Merchandise budgeting: Meaning and objectives

A merchandise budget or plan is a forecast of specified merchandise activities for a definite period of time. It usually involves setting down on paper the desired results (plan) for a specific period and the appropriate methods by which these results will be accomplished. The essential elements in the plan are sales, stocks, reductions--including markdowns, employee and other discounts, and stock shortages---purchases, and gross margin. The budget does not specify particular items to be purchased, such as 18 pairs of women's shoes style No. 184937, but instead deals with broader categories such as the total amount to be invested in shoes, women's shoes, women's sandals.

Purposes of budgeting. The main purpose of a merchandise budget is to provide a clear-cut plan of merchandising operations for a specific period of time, based upon careful study of existing needs and foreseeable conditions. In other words, *the merchandise budget provides both a definite course of future action and a yardstick for evaluating current performance.* It enables the retailer to obtain sales by timely buying, to adjust inventories to meet sales requirements, to plan promotional efforts, to check the performance of merchandise executives, to coordinate all departments into a profit-making entity, and assists the financial officer to plan the funds needed to buy merchandise. It also provides a cumulative record of past results, both planned and actual; develops a "planning consciousness"; and emphasizes the need for facts other than guesswork and hunches in buying and selling activities.

Requisites of a good budget. To accomplish its purposes, a merchandise budget should (1) be planned some weeks in advance of its effective date, (2) be as simple as possible, (3) represent the combined judgment of those whose activities influence its success, (4) cover a period not longer than that for which reliable estimates may be made, and (5) be flexible enough to permit necessary adjustments.

Form of the budget. The form of the budget depends mainly on the purposes for which the information is to be used, the kinds and amounts of data included, the period or periods covered, and the preferences of those collecting and using data. Trade associations in the retail field often recommend the use of standardized forms by their memberships and prepare specific kinds for adoption.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. Budgets are not always prepared in a given situation, but they probably should be.
2. Scrambled merchandising means that retailers place dissimilar goods side by side within a small area hoping to stimulate more sales to a given customer looking for a particular item.
3. The budget does not specify particular items (by style number) to be purchased.
4. The budget is both a planning and a control device.

Answer

1. True. Due to the size and importance of expenditures for goods, merchandise budgeting is almost always advisable.

2. False. Scrambled merchandising is the practice of adding new lines from other kinds of retail businesses. An example is where supermarkets added health and beauty aids.
3. True. Instead it deals with broad categories of goods to be purchased such as shoes, dresses, and so on.
4. True. It provides both a definite course of future action and basis for evaluating current performance so that corrective action may be taken.

Basic elements in merchandise budgeting

Planned sales. Sales planning is usually done either in units by price lines or in dollars for the period of time involved. Either approach is dependent on the availability of relevant information. Forecasting sales by units and translating these into total sales figures is impossible without records upon which to base estimates and to obtain the final results. And sales in dollars cannot be estimated without reliable data concerning (1) the long-term trend of sales reflecting the normal rate of growth of the business, (2) the conditions outside the business which affect its sales volume, and (3) the conditions within the business which influence future sales.

New stores have no past-sales records upon which to base future estimates. They must rely, therefore, on the sales volume of other comparable stores in similar locations and visits to other stores to observe customer traffic and to talk with potential competitors. All suitable means should be employed in arriving at sound estimates.

Some retailers try to budget on the basis of "beat last year," that is, exceed last year's sales in all departments and categories without regard to changes in customer desires and other relevant factors. This sort of careless planning can easily lead to buying excess quantities of some types of goods.

Planned stock. In planning the stock to meet expected sales, the objective is the same as that previously emphasized-to maintain a balanced relationship between the two. This means that the retailer should (1) maintain an assortment of sufficient length and breadth to satisfy the customers' needs, (2) adjust the inventory to the forward movement of the selling season, and (3) keep inventory investment under such control that stock turnover is satisfactory from a profit standpoint. As in planning sales, it is advisable to estimate a season's requirements and then to divide these estimates into months.

Average stock. The size of the average stock will be determined by the quantities needed to serve customers properly, by the speed with which replenishments can be obtained, by the cost savings of purchasing in large quantities, and by the risks and expenses of carrying a large inventory. Mathematically the relationship between sales volume and average stock is called turnover and is obtained by dividing the former by the latter. Both should be expressed in similar terms: sales in dollars divided by average stock at retail, or cost of goods sold divided by average stock at cost, or sales in physical units divided by average stock in units. A retailer who plans a high turnover rate will have a relatively small average stock.

Monthly variations in stock. Since sales fluctuate from month to month, the store will want to have more than the average inventory of goods at the beginning of some months and less at the beginning of others. There are five ways of planning these fluctuations around the average stock.

1. *Judgment.* This will be used either alone or to modify the results of the following four more precise methods.
2. *Basic stock method.* The formula, BOM (beginning of the month) stock = Average stock + (Estimated sales for the month - Estimated average monthly sales), is best suited for departments with a relatively low turnover rate, less than 6 per year.
3. *The percentage variation method.* This method, which adjusts the stock by one half the percentage monthly variation from the estimated average, produces less fluctuation in high turnover departments than the basic stock method. The formula is

$$\text{BOM stock} = \text{Planned average stock} \times \tfrac{1}{2}\left(1 + \frac{\text{Estimated sales for the month}}{\text{Estimated average monthly sales}}\right)$$

4. *Week's supply.* Inventory is planned to equal anticipated sales for a predetermined number of weeks. Fluctuations will be reduced as the number of weeks involved is increased.
5. *Stock-sales ratios.* The estimated sales for a period, usually a month, are multiplied by a predetermined stock/sales ratio. The ratio for February in Department X may be 2.1 which means that the stock should be 2.1 times estimated February sales. Stock/sales ratios may be obtained from the store's past experience, from that of other stores or from figures published by trade associations. This method is the only one which permits meaningful comparisons between stores. *Note:* Stock-sales ratio indicates the relationship that exists between the stock on hand at the beginning of a period (usually a month) in terms of retail prices and the sales for that month. Sometimes, an end-of-the-month stock figure is used.

Planned reductions. Reductions include markdowns, discounts given to employees and certain types of customers, and shortages. Since discounts to special customers and employees usually are included in markdowns, only the figures for markdowns and stock shortages are shown on most budget forms.

Markdowns are inevitable, and failure to include them in the budget is a shortsighted policy. Actually, planning markdowns results in reducing their size and frequency because the buyer is made more conscious of them and takes steps necessary to minimize them.

Planning markdowns necessitates that their causes be determined for the benefit of buyers and others concerned. These causes may be grouped under four main headings: (1) markdowns growing out of preventable causes, or errors caused by poor buying; (2) those caused by price adjustments outside the buyer's control, such as declining price levels, and competitors' prices; (3) those attributable to store promotional policies, such as special sales events, also outside the buyer's control; and (4) normal operational markdowns, illustrated by price reductions on soiled and damaged goods, and breakage. Stock shortages-the unaccounted-for disappearance of merchandise expressed in terms of retail prices-are also inevitable in retail stores and should be included in the merchandise budget. In planning this figure, past experience of the store or department and of similar stores is the best guide.

Planned purchases. When figures for sales, opening and closing stocks, and reductions have been planned, the planning of purchases in dollars—the fourth step in merchandise budgeting—becomes merely a mechanical operation through the use of certain formulas. Those in common usage are as follows:

1. Planned purchases = Planned sales + Planned reductions + Planned increase in stock, or - Planned decrease in stock
2. Planned purchases = Planned stock at end of period + Planned sales + Planned reductions - Stock at beginning of period

These formulas may be applied to an entire store, or to any further breakdown desired, for the budget period or any part thereof and are applicable to control in physical units as well as in dollars.

THE OPEN-TO-BUY. The open-to-buy is that amount, either in terms of retail prices or at cost, which a buyer is open to receive into stock during a certain period on the basis of the plans formulated. To illustrate, using retail prices, assume planned purchases for October are $10,000. On October first, therefore, the buyer is open-to-buy that amount during the month. By October 20th, $7,000 has been spent for merchandise already received or due to arrive before the end of the month, leaving $3,000 to be spent for goods to be received during the rest of the month. In other words, the open-to-buy is $3,000 on October 20th. Not all open-to-buy figures, however, are so easy to calculate the gross margin as follows:

The open-to-buy figure is a guide rather than a set amount which cannot be exceeded. Even though the amount budgeted for purchases during a given period has been spent, further purchases are not impossible if stock is needed to meet customers' requirements. A department may be overbought but still be in urgent need of staple, fast-selling merchandise. To refuse the buyer funds to make purchases would only serve to intensify the problem, not solve it.

Planned gross margin and operating profit. Determining gross margin is the fifth step in merchandise budgeting. Because net profit is ascertained by deducting expenses from the gross margin, the significance of the latter figure is obvious. The gross margin is the initial markup adjusted for price changes, stock shortages, and discounts to employees. Once the initial markup and retail reductions have been planned, the planned gross margin may be found by the following formula:

Gross margin = [Initial markup x (100 percent + Retail reductions)] - retail reductions

Thus, assuming that the initial markup is 45 percent and the retail reductions are 15 percent, we calculate the gross margin as follows:

Gross margin = [.45 x (100 + 15)] - 15
= .45 x 115 - 15
= 51.75 - 15 or 36.75 percent

In practice, however, the gross margin is often determined from a table, which indicates gross margin percentage figures for initial markup, cash discounts, and retail reductions of various sizes.

Indicate whether each of the following statements is true or false by writing "T" or "F".

1. A firm's forecasting of sales usually is compiled from the estimate of planned purchases.
2. Planned markdowns are indications of gross inefficiency on the part of the buyer.
3. Planned purchases and functions in stock vary in amount, depending on which methods or formulas (present above) are used.
4. If a company has expenses and its only source of revenue is from sales of merchandise, its gross margin for a given period of time always exceeds its net profit for that period of time.

Answer

1. False. Sales forecasting must *precede* and be utilized in the determination of planned purchases.
2. False. Markdowns are inevitable, and failure to attempt to predict them may result in a larger number than would otherwise be the case.
3. False. Both formulas presented for planned purchases will yield the same figure methods given to determine the fluctuations.
4. True. Net profit is equal to gross margin *less* the expenses of the firm.

Limitations of the merchandise budget

Despite its widespread use as a tool of management, the merchandise budget has certain limitations. First, it is an aid to the judgment of those who use it and is not designed to control their thinking. Second, its planning and operation involve considerable time, effort, and expense. The benefits derived from its use must be greater than the cost involved in preparing and maintaining it. Third, some buyers claim that the budget often so restricts their actions that they are unable to take advantage of exceptional buying opportunities which may arise. Fourth, since the planned figures are based upon analysis and interpretation of known facts and probable future conditions, these figures are of value only as long as conditions closely approximate those anticipated. When changes occur, revisions in estimates should be made.

Responsibility for the merchandise budget

For budget formation. In small stores the responsibility for developing a merchandise budget rests with the proprietor. The form the budget takes, the type of information that is collected, and the use made of it will depend upon the needs of the store and the proprietor's attitude toward merchandise planning. Too often, the fault with a budget system that fails to work lies not in the system itself but rather in the attitude of those affected by it.

In most large stores responsibility for budget formation is usually shared by the merchandise manager and the controller or treasurer. The actual formation of the budget, however, is based to a large degree upon estimates prepared by buyers or divisional managers in department stores and discounts houses and by merchandise assistants, supervisors, and store managers in chain stores. These estimates, however, are submitted to their superiors for final approval.

For budget supervision. Supervision of the budget includes more than mere checking of actual results against planned figures. It also involves follow-up to determine if information in the form desired is being promptly and accurately supplied; if purchases and markdowns are properly authorized; if the open-to-buy figure is frequently being exceeded, and if so, who has approved such action; and if the budgeted figures are being revised when necessary. Furthermore, supervision includes the review of the budget at frequent and regular intervals by merchandise and control executives.

Here again responsibility for the activities described rests with the proprietor in small stores. In large ones it is divided between the merchandise manager and the controller, aided by those who assist in formulating the merchandise budget. Wherever responsibility lies, supervision should be thorough, consistent, and continuous.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. The buyers play a rather passive role in the preparation of the merchandise budget.
2. The merchandise budget should be used as a flexible guide rather than a strict control.
3. The merchandise budget is typically the joint concern of the merchandise manager and the controller.
4. The budget is solely a planning device.

Answer

1. False. The buyers are actively involved in the budgeting process.

2. True. Buyers should never feel that the merchandise budget overrides their managerial prerogative. The budget is an aid to their judgment of those who use it and should not control their thinking. Also, as conditions change, revisions should be made.
3. True. The merchandise budget is usually an area of joint responsibility of the controller and the merchandise manager.
4. False. The budget is both a *planning* and *controlling* device. It involves follow-up to see if performance conforms to plans. Corrective action is taken wherever necessary.

CHAPTER 9
PLANNING AND SELECTING ITEM ASSORTMENTS

Learning Objectives:

After studying this chapter you will be able to:

1. Establish a buying plan.
2. Determine the quantities to purchase.
3. Maximize inventory turnover.
4. Determine customer's wants.
5. Identify inside sources of information on customer's wants.
6. Determine outside sources of successful merchandising practices.

The dollar plans described in the last chapter must be translated into choices of specific quantities of specific items as discussed below.

Buying plans

General considerations. Progressive retailers formulate quite specific buying plans in order to be certain that they will offer their customers attractive, well-balanced assortments. Nevertheless they realize these plans must be kept flexible for adjustment to changes in customer tastes and market conditions. To achieve balance, the retailers will consider the variety of customer desires. Some items may be included because they give the store prestige or a reputation for style leadership, or because they are bargains that will attract customers for additional purchases.

Decisions must also be made about the breadth of assortment, that is, the variety of items to be carried in the store or department. For example, will the record shop or department sell only records or will it also handle tape music; among records will it only sell popular music or also operatic and classical albums, and if so, how many titles will it carry? Wider assortments have greater customer appeal but involve extra handling, space, and investment costs. Also the slower rate of sale of the less popular varieties slows down the turnover rate discussed below. Finally some retailers now find it profitable to choose between competing items by selecting those that will maximize Gross Margin (dollar) Return on Inventory (investment) (GMROI).

Basic stock list. Two types of formal buying plans are available. One, called the basic stock list or basic stock plan, is used for staple goods. Based largely on past sales experience, it usually shows minimum and sometimes maximum quantities of specific items to be carried. Even this plan, however, must be modified frequently for seasonal and other changes in demand and for the inclusion of new products.

Model stock plan. The other, the model stock plan, is used for fashion goods. A basic stock list based entirely on the analysis of past sales is of little value for fashion merchandise. What sold well last year may not sell well this year. Consequently, the retailer — taking into consideration both past sales and those expected for the forthcoming period — builds a picture of (a) the total dollars of the stock; and (b) a detailed classification of the stock to be carried, as to such factors as sizes, types, and price lines. Specific styles are not usually stipulated; instead the merchandise is described in more general terms such as "women's white tailored blouses at $29.98.” The result is a model stock. It contains the merchandise designed to achieve planned sales most effectively. The total dollar value of the goods for each major merchandise category may be determined in accordance with the budgeting process described in Chapter 10.

Both the basic stock and model stock plans may be supplemented in use by a perpetual inventory system that will record the exact amount of goods on hand at any time (see Chapter 14).

Determining quantities to purchase

In the last chapter we discussed the mathematical relationship between average stock and sales, called "turnover" or "turnover rate." But the amount of merchandise to be purchased, either of a particular item or for the store as a whole, is not a simple matter of automatically dividing the anticipated sales in the season depending upon the retailer’s turnover rate. Instead, purchase quantities and stocks to be earned will be influenced by many factors: (1) *expected sales volume,* the most important consideration; (2) *type of merchandise*— some products such as furniture and fine jewelry sell more slowly than greeting cards and thus require a larger average stock per sales dollar; (3) *source of supply-larger* stocks will be required for goods from distant suppliers than for items immediately available from local wholesalers; (4) perishability—the retailer will buy products subject to rapid physical or market decay in limited quantities; (5) *supplier’s policies* such as offering large quantity discounts or permitting small orders will also be important; and (6) *the retailer's financial and physical capacity*— some modern stores are designed with very little stockroom space to curtail the inventory that can be carried.

As noted, offering a wide assortment will normally involve handling some slow moving items. Seasonal items may be "peaked" (largest estimates of customer buying patterns and of style risk.)

Turnover. Within the constraints imposed by the factors discussed above, the retailer may choose to try to maximize turnover by carrying as small an inventory as appears practicable and by reordering frequently. Alternatively, the choice may be to carry a larger inventory, that is, a sufficient stock to last a longer time, and thus accepting a lower turnover rate. Many retailers practice hand-to-mouth buying; that is, they buy in small quantities at frequent intervals, thus decreasing the period for which they buy. They find that a small inventory with a rapid turnover decreases storage and interest charges, results in a steady flow of new merchandise into the store and increased sales, and reduces the risks involved in long-term commitments. Better inventory control and ordering systems have made it possible to successfully operate on smaller stocks.

The disadvantages of hand-to-mouth buying are that it may result in the loss of noncumulative quantity discounts, inadequate assortments, less effective displays, higher total transportation cost, and higher prices later. The greatest danger is not having sufficient stock to satisfy customer demands.

Many retailers follow a policy of speculative buying. That is, when rising prices are expected, buyers place large orders, hoping to resell at higher prices later and obtain a larger gross margin; when falling prices are anticipated, a close hand-to-mouth buying policy is pursued. Such a practice should be followed with extreme care and full awareness of the risks involved.

Occasionally a larger order than usual should be placed when rising prices are expected. Sometimes such action is necessary to increase the assurance of getting goods. But retailers should not forget their merchandising function in trying to get an inventory profit.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. The retailer should stock as many items and as broad a variety as will fit into the facility.
2. The basic stock plan should not be used for fashion goods.
3. The amount of merchandise to carry is calculated by dividing anticipated sales by the desired turnover rate.
4. In deciding how much inventory to carry, the cost of lost sales from carrying too small an inventory must be considered.

Answer

1. False. The decision of how much to carry in inventory and how wide and assortment must take into consideration handling, space, and investment costs. The Gross Margin Return on Inventory is useful in making a decision.
2. True. The basic stock plan is based on an analysis of past sales. What sold well last year may not sell well this year. Instead the model stock plan should be used. Its specifies only the total dollars of the stock and detailed classification of the stock by sixes, types, and price lines.
3. False. Other factors must be considered. Some of theses are type of merchandise, source of supply, perishability, supplier's policies, and the retailer's financial and physical capacity.
4. True. This cost must be compared with the high carry costs and investment costs of having a large inventory. A medium-sized inventory often results in minimizing total costs.

Determining customers' wants

Information as to the types, kinds, and prices of goods wanted by a retailer's present and potential customers may be gathered from both inside and outside the store. Included in these major sources are the following:

1. Inside sources — past sales, returned goods and adjustment information, credit department data, customer inquiries, suggestions of salespeople, and advice from fashion coordinators.
2. Outside sources — offerings of other successful stores; vendors' offerings; recommendations of central market representatives; information in trade papers, newspapers, and general publications; customer surveys; and laboratory tests.

Inside sources

Past sales. These constitute the most important inside source of information on customers' wants. They yield more information on staple merchandise than on fashion goods but are significant for both types. They indicate the sizes customers need and show the prices and types of goods they prefer.

Analysis of past sales also reveals helpful information about customer brand preferences, data that have increased in importance with the growth of self-service and self-selection. With this information, the retailer can concentrate on the best sellers, provide better service, and obtain lower prices from suppliers.

Returned goods and adjustment data. Returned goods and customer complaints yield considerable information as to what customers want, Some merchandise may be of inferior material or poor workmanship and give unsatisfactory service. Knowledge of the reasons why customers are dissatisfied is obviously important to buyers.

Credit department data. Retailers extending credit find two chief kinds of information available in the credit department useful to their buyers, One is customers' records of purchases and the kinds and prices of merchandise they return. The second is supplied by the credit application which furnishes a variety of data, such as occupation and income.

Customer inquiries. A record of goods desired by customers but not in stock furnishes a helpful guide to the buyer since it reveals customer wants. In large stores such a record is especially necessary. This is done through a formal want-slip system with forms provided to the salespeople for listing requests for merchandise not carried in stock.

Suggestions of salespeople. When preparing want-slips, salespeople aid the buyer in learning the desires of customers and, since salespeople are customers in their own right, they afford the buyer a valuable sample of customer opinion.

Advice from fashion coordinators. Large organizations employ fashion coordinators to advise buyers on style trends and to promote the compatibility of merchandise, such as shoes and handbags from different departments.

Outside sources

Other successful stores. No buyer should overlook the goods offered by other successful stores in deciding what to buy. This source is particularly helpful to smaller retailers who cannot afford other costly ways of determining customers' wants. Through such methods as visits to other stores, study of their advertisements, hiring outside "shoppers" or using their own, considerable useful data are obtained. Some retailers, however, owe their success to the fact that they operate unique stores - stores which offer unusual merchandise and do not depend on other retailers to learn customer preferences.

Vendors' offerings. All stores, especially smaller ones, rely on vendors' offerings to learn what goods are in demand. Perhaps too many buyers depend on vendors who naturally wish to sell what they produce or stock rather than studying customer demand to find out what is wanted. Yet there is a definite trend for vendors to engage in more customer research. Some use bulletins to tell their customers what is selling. Vendors of fashion merchandise, particularly, follow this practice. Others use sales representatives for this purpose, and still others use inventory control systems for their retail outlets to provide improved stock control, semiautomatic reordering, and similar information.

Central market representatives. Many retailers retain central market representatives (resident buying offices) to provide buyers with information about new and popular items in the market. These representatives study vendors' offerings, watch fashion trends, and check promotions in large city stores. Their findings are then transmitted to buyers through bulletins and verbally when the buyers visit the central markets.

Trade papers, newspapers, and general publications. Retailers of all sizes find trade and fashion magazines and newspapers helpful in learning what customers want. Publications are available in practically all areas of retailing.

Customer survey. Broadly, any activity designed to gather information directly from customers about their wants may be termed a customer survey. Among the methods and devices employed are questionnaires, style counts for fashion goods, and consumer advisory groups or juries. Some agencies conduct customer surveys for retailers or on their own initiative for the purpose of obtaining data of value in buying.

Testing bureaus. Testing bureaus are a valuable guide to the buyer in determining suitability of goods. They are used: (1) to test merchandise for fading, shrinking, and wearing ability before ordering; (2) to check uniformity of sizes in wearing apparel before commitments are made; (3)

to devise purchasing specifications; (4) to check on the quality of goods delivered and their conformance to specifications; (5) to compare the merchandise offered for sale in one store with that in competing stores; and (6) to suggest product innovations or improvements.

Because store-owned testing bureaus are costly, they are usually operated only by large-scale retailers. Commercial bureaus are used by both large and small retailers. Many retailers review the periodic bulletins published by such consumer-supported testing and reporting organizations as Consumers Union. These sources of information are of special assistance to small retailers who cannot afford to maintain testing bureaus of their own.

Buyer's judgment. Whether formal buying plans are used or not and in spite of all of the inside and outside sources of information discussed above, the buyers must finally use their judgment, their intuition, and even their hunches in deciding which items will appeal to their customers.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. Want-slips provide information about customers’ desires for goods which are not on hand.
2. Smaller retailers are particularly aided in learning about market trends by reference to the merchandise offered by large successful stores.
3. Central market representatives are retained by retailers to obtain information about vendors’ offerings.
4. Due to all the formal methods for determining what to stock, the need for buyer’s judgment and intuition has almost disappeared.

Answer

1. True. Want-slips do provide information about goods, which are not currently in stock. A summary of these often is sent to the buyer who decides if the item should be bought.
2. True. Knowledge of the merchandise being offered by large, successful stores is an inexpensive method of acquiring information about market trends.
3. True. They also assist in other ways such as making arrangements for buyers' central market visits and in checking on shipments from vendors.
4. False. In spite of all the information available buyers must still use their judgment, intuition, and hunches to a certain extent.

CHAPTER 10
BUYING: SELECTING MECHANDISE RESOURCES

Learning Objectives:

After studying this chapter you will be able to:

1. Identify and select merchandise resources.
2. Establish main types of suppliers.
3. Determine what manufacturers can be merchandise sources.
4. Use vendor information to find buyers.

In addition to planning and selecting the items to be included in the stores assortment, the retailer must determine which suppliers will be patronized. In some instances the two types of decisions are interrelated since a specific item may only be available from one resource. But in other cases the same or similar goods may be obtained from many different suppliers.

Number of resources

Whether to concentrate purchases with one or a few suppliers or to spread them among many sources is a basic question. Concentrating purchases reduces buying effort and expense, qualifies the retailer for maximum quantity discounts, facilitates the retailers participation in any merchandising or promotional programs the suppliers may offer, and should oblige the suppliers to provide preferential treatment if merchandise is in short supply. But it also reduces the retailers options, may exclude desirable products from the line, and increases dependence on the selected vendors. A change in a supplier’s marketing channel policy or a strike or disaster in its plants may be devastating if purchases are concentrated with that supplier. The types of resources to be used must also be considered.

Main types of suppliers

Three major sources of supply are open to the retailer: wholesale middlemen, manufacturers, and farmers or growers.

Wholesale middlemen. Wholesalers are merchant middlemen who typically buy from manufacturers in relatively large quantities and sell to retailers in substantially smaller quantities. Probably almost half of all manufactured consumers' goods go through the hands of wholesalers.

SERVICE AND LIMITED-FUNCTION WHOLESALERS. Most wholesalers are service wholesalers. Their most important function is to serve as the retailers' buying agent. They assemble goods for the retailer, store them until wanted, deliver them on order, finance them through credit, reduce risk through enabling the retailer to operate with smaller stocks, guarantee the goods sold, and are a helpful source of market information. Limited-function wholesalers do not extend many of the foregoing services to the retailer. Cash-and-carry wholesalers, for example, limit themselves to stocks of fast-moving items, eliminate sales representatives, and offer no credit or delivery service.

THE RACK JOBBER. The rack jobber is basically a wholesaler of nonfood items who arranges with the management of supermarkets to stock and maintain an assortment of goods in a fixture or rack in a particular space in the store. A specific percentage of markup - usually 25 to 30 percent - is guaranteed to the supermarket. The rack jobber selects the items and arranges the displays, making shifts whenever such actions seems advisable.

INTEGRATION OF WHOLESALE AND RETAIL FUNCTIONS. Among regular chains there is often a high degree of integration of retail and wholesale activities. The voluntary chain also integrates these activities. Although they are not under common ownership, a contractual arrangement usually exists under which the wholesaler and retailer agree to coordinate their operations. In practice, the line between the regular chain and voluntary chain operations is becoming somewhat obscure. In addition to serving retailers under contract, the voluntary chain wholesaler may operate a chain of its own — or have a substantial financial interest in any of the so-called independent stores. Or a retailer may own a whole group of stores (i.e., a chain) and yet have them supplied with merchandise from the voluntary chain wholesaler.

Other middlemen. Other middlemen — brokers, commission houses, manufacturers' agents, selling agents, and auctions — are used as sources of needed merchandise by some retailers.

The *brokers* main service is to bring buyer and seller together and is used chiefly in buying and selling grocery specialties, dry goods, and fruits and vegetables.

Commission houses typically operate in central markets and constitute a source of supply mainly for large retailers, especially for those interested in buying dry goods, grocery specialties, and fruits and vegetables.

Selling agents are independent business firms who perform the entire sales function for their clients. They are mostly employed by small manufacturers of piece goods, clothing, and food specialties who are not large enough to have their own sales organizations. Manufacturers' agents sell goods similar to those sold by selling agents, but they have less authority over prices and terms of sale, are limited to a more restricted area, and sell only part of their clients' output. Auctions, on the other hand, are used by the larger retailers of fruits and vegetables. When received, the produce is placed on display and quickly sold to the highest bidder, the proceeds going to the shipper after commissions and other charges have been deducted.

The manufacturer as a merchandise resource.

WHY RETAILERS LIKE TO BUY DIRECT. Many retailers believe it advisable to purchase goods directly from manufacturers. Manufacturer's sales representatives are better trained and better informed than those of wholesalers and can advise the retailer on advertising, display, and on the stock needed**.** This advice is very helpful on high-fashion merchandise.

For large retailers, direct buying makes possible the purchase of goods made according to their own specifications. Such purchasing is on the increase; Sears, for instance, designs details of 95 percent of the goods it sells. Drug chains, furniture chains, department stores, and discount houses also follow this practice.

To achieve some of the advantages of direct buying, many smaller retailers have joined together. In Cleveland, for example, direct buying by a group of hardware retailers resulted in a reported 10 to 20 percent reduction in prices; and the ability to purchase directly from manufacturers was a major reason for the formation of some associations of independently owned shops,

MANUFACTURER-RETAILER INTEGRATION. Just as integration has taken place between wholesaler and retailer, the manufacturer and the retailer have also been drawn together. Currently some mail-order firms have varying degrees of financial interest in a substantial number of their suppliers, and supermarket chains operate bakeries, candy factories, ice cream plants, cheese factories, and French-fried potato plants, among many others. This sort of vertical integration is also common among shoe, men's clothing, tire, battery, and accessory chains.

The farmer as a merchandise resource. The grower is not an important source *of* supply *for* retailers, except in foods. Small retailers may buy a large part of their fresh fruits and vegetables from local growers. And larger ones may even send buyers to distant farmers. Most agricultural consumers' goods, however, are bought by retailers from middlemen.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. Most wholesalers are limited-function wholesalers.
2. Voluntary chains are established to integrate the wholesaling and manufacturing functions.
3. Selling agents are retained by manufacturers to perform the entire sales function for the manufacturers.
4. Middlemen are very important in the field of agricultural consumers’ goods.

Answer

1. False. Most wholesalers are service wholesalers offering a variety of services to retailers. They act as the retailer's buying agent.
2. False. Voluntary chains are established to integrate the *retailing* and *wholesaling* functions.

3. True. Selling agents perform the entire sales function for their clients. They are employed mostly by small manufactures that are not large enough to have their own sales organizations.
4. True. Most agricultural consumers' goods are channeled through middlemen. In many fields, however, the practice of retailers buying directly from the manufacturer is on the increase.

Vendor initiative to find buyers

The initiative in bringing the retailer and the vendor together may be taken by either party. The retailer may act alone or in cooperation with other buyers. We begin our discussion with the seller taking the initiative.

Two chief methods are employed by the vendor to find buyers: (1) catalogs and price lists and (2) sales representatives. Of considerable importance at one time and still widely used by some vendors, catalogs are largely used by retailers for the purchase of staple merchandise needed to fill in their stocks.

Sales representatives probably are the most important activity initiated by the vendor in selling its products. This method has the advantages of relieving buyers from searching for sources of supply, obtaining opinions of salespeople before purchases are made, providing a source of market information, enabling buyers to check the stock on hand, and, in general, perhaps helping the buyers do a better job.

Retailer initiative to find vendors

Increasingly, retailers are seeking sources of supply rather than depending on vendors coming to them. They prefer to compare the offerings of several vendors, survey the market and exchange ideas with various sellers and retailers handling similar merchandise. In this process they proceed in a number of ways.

Visits to local and central markets. Local market visits are most common by small retailers of fruits and vegetables; whereas trips to major central markets, such as New York City, San Francisco, Los Angeles, Chicago, St. Louis, Dallas, Atlanta, and New Orleans, to find suitable merchandise is widely practiced by medium-sized and large-scale retailers and, to some degree, by all retailers of fashion goods.

Buying in central markets is carried on mainly (1) through store buyers who make periodic trips to market, (2) through store buyers assisted by resident buying offices (market representatives), and (3) through central buyers.

CENTRAL MARKET BUYING TRIPS. The frequency of buying visits to central markets are determined by such factors as the following:

a. Whether or not the buyer's store has a resident buying office;
b. The type of merchandise involved, that is, staple or fashion goods;
c. The size of the store;
~~b.~~ d. Business and supply conditions; and
~~c.~~ e. The retailer's location in relation to the central market.

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The brevity of the average market trip makes intensive preparation essential. Once in the market, the buyer must scout it carefully and decide on whether to patronize many or a few vendors by evaluating each course of action. As a rule, retailers should confine their purchases to those vendors having the best buys. Resource files are maintained by many buyers as an aid in choosing which vendors shall get the bulk of their orders. Such a file consists of a card record for each vendor with notations indicating the results of past dealings. Some stores now maintain computerized vendor records providing similar information in greater detail.

Resident buying offices may be classified into two groups: independent offices, including salaried or paid offices and merchandise brokers and store-owned offices, including private offices associated offices and syndicate and chain offices.

The independent office is a private company with an ownership different from that of the stores which it serves. In the salaried or paid type of office, contracts are usually written providing that buyers shall have the use of the services offered for a certain period, typically one year. Merchandise brokers, paid by vendors, exist to serve smaller retailers who cannot afford the cost of the salaried type.

The store-owned buying office is owned outright by a single large store or group of stores. When a part of one firm, it is known as a private buying office. When it is owned and directed by several stores for their own benefit, it is known as an associated buying office. The syndicate office is best exemplified by the chain store or ownership-group buying office, which purchases centrally or otherwise for the stores involved.

The services provided by buying offices enable buyers to do a much better job than they could do without such assistance. Some of these services are as follows: place orders upon request; check on deliveries; handle adjustments; and furnish the store buyer with information as to goods available, fashion trends, prices, and the best sources of supply. Their representatives accompany the buyer on visits to vendors so that both can pass judgment on merchandise offers and locate the best buys; the offices also arrange for showings where the offerings of many vendors are displayed, thus conserving the buyer’s time, and they can provide facilities such as office space, stenographic aid, and sample rooms for the buyer to use when in the central market.

When the buyer is not in the central market, the resident office will still be helpful through a constant stream of market information in the form of letters, special reports, or regular weekly or monthly bulletins. Thus the buyer is kept informed concerning fashion and price trends and special buys.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. Vendors rely more heavily on their own sales representatives in selling their products than they do on any catalog or price list which they may circulate.
2. Retailers should patronize those vendors with the best buys, as opposed to continually spreading their purchases among all available vendors.
3. Resident buying offices are prominent in the department and specialty store field.
4. A private buying office is independently owned and operated company which services a number of retailers.

Answer

1. True. Sales representatives are generally regarded as being the most effective means a vendor has for selling products.
2. True. Retailers should concentrate their purchases with vendors who have the best buys in terms of merchandise, prices, terms, adjustments, and delivery service.
3. True. Resident buying offices service approximately 90 percent of the country's department and specialty stores.
4. False. A private buying office is owned and operated by one retail firm for its own use.

GROUP BUYING. Group buying involves joint purchasing by a number of buyers representing noncompeting stores. Resident buying offices frequently participate in this activity. Typically, they gather samples from various vendors and display them at their offices or in hotels. After reviewing the samples, a committee decides on the items to be bought.

Group buying yields the following benefits. (1) placing large orders on the chosen goods results in large discounts; (2) pooling of knowledge as to what customers want, goods available and fashion trends enables buyers to select the most salable items; (3) the buyer's time is saved while the buyer is in the market; (4) direct comparison of merchandise makes for better buying; (5) standards may be developed for some items, enabling them to be made to the group's specifications; and (6) group promotions are made possible.

Group buying, however, has its limitations. In addition to objections raised by vendors - that it results in too many price concessions, causes pressure to reduce quality, and encourages style piracy while samples are on display - other difficulties are involved. Many store buyers consider group buying a step toward their elimination and do not cooperate in buying or purchasing the goods selected. The practice is also time consuming, and not all groups have provided the better selection of goods expected.

CENTRAL BUYING. Central buying implies that a large part of the authority over buying lies outside the retail store as is true in many chain store organizations. Instead of the store manager choosing vendors, this task is performed by headquarters executives. The central buyer is responsible for purchasing, and the store manager for selling.

In part, the advantages of central buying are similar to those of group buying, such as the lower prices secured by quantity buying and the central planning of sales promotions. Other advantages, however, result. The central buyer spends full time in buying and becomes more expert in this task and does a better job than the store buyer. A company's central buyers may or may not be located in a central market (the K Mart Corporation's buyers, for example are mostly stationed at Troy, Michigan) but will make frequent market visits.

The benefits of central buying are greatest for staples. For fashion goods it is contended that since the buyer must keep in touch with the store's customers whose wants differ from other stores, the quantities purchased may not be large enough to get important quantity discounts. Consequently, fashion goods appealing to buyers for stores with upper income clientele are unlikely to be purchased by central buyers.

Committee buying. Supermarket and some other chains practice this type of central buying in which each specialist buyer screens out undesirable offerings but then must present the remaining choices to a committee of company executives for final approval. This practice provides collective insights and requires the buyer to carefully evaluate the arguments for adding an item to the line. However, it delays the buying process, probably curbs some buying initiative, and is not suitable for fashion goods.

Buying in foreign markets. Many retailers believe that goods obtained from abroad - such as laces from Belgium - give prestige to a store and, because of the higher markups obtained, contribute to better profits. Most foreign goods come through New York City and Pacific Coast importers. Some of these goods are bought through correspondence or resident buying offices, but some firms maintain foreign connections.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. Group buying has been frowned upon by some individual store buyers because it results in too many price concessions.
2. Central buying has been proven most effective for staple goods.
3. Committee buying speeds up the buying process and is often used for fashion goods.
4. Foreign goods are used to provide prestige to a store.

Answer

1. False. *Vendors* object to group buying of the price concessions involved; some store buyers do not support this practice because they feel that it is a step toward their elimination.
2. True. The benefits of central buying are greatest for staples. Central buying is common in chain store organizations and involves the buying function being performed by headquarters executives and the selling function by store managers. For fashion goods it

is contended that the buyer must keep in touch with the store's customers, and, thus, central buying is used less frequently.

3. False. It slows down the buying process and is not suitable for fashion goods.
4. True. And some of them may also provide a higher markup.

CHAPTER 11
BUYING: NEGOTIATING WITH MECHANDISE RESOURCES

Learning Objectives:

After studying this chapter you will be able to:

1. Describe the objectives of an invoice.
2. Establish guidelines for negotiation.
3. Discuss terms of sale discounts.
4. Prepare quantity discounts.
5. Describe brokerage discounts or allowances.
6. Utilize cash discounts.
7. Determine the dating and terms of a sale.
8. Identify other types of negotiations for purchasing merchandise.
9. Prepare purchase orders and transfer titles.
10. Explain assignment buying and memorandum buying.

The invoice

References to “the invoice” will be made frequently in this and the next chapter. An invoice is simply a resources bill for goods shipped showing quantity, description, price, terms of sale, and shipping method. It may or may not be included with the shipment.

Some guidelines for negotiations

In negotiating purchases with vendors, buyers should recognize that (1) the merchandise should be what their customers want, (2) it is to their interest not to take unreasonable advantage of sellers, (3) they should not give the vendor the idea that they know all the answers, (4) before beginning price negotiations they should possess all relevant price information, and (5) any concessions from the asking price will vary among vendors and fields.

Terms of sale: Discounts

A discount is any reduction in the list or quoted price of merchandise which is a]lowed by the seller. Discounts may be grouped into six classifications: quantity, trade, seasonal, advertising or promotional, brokerage, and cash.

Quantity discounts. A quantity discount is a reduction allowed from the list price because of the quantity purchased and is based typically on the quantity ordered at a given time - the noncumulative quantity discount. A cumulative quantity discount, on the other hand, also known as a "deferred discount" or "patronage discount," applies to the total purchases made within a period.

Quantity discounts are granted because of the economies made possible for the vendor, such as a reduction in sales representatives' cost and the cost of billing and collecting, and because of buyer pressures. But they are also subject to limits other than those resulting from the bargaining ability of buyer and seller. Under the Robinson-Patman Act (1936), a vendor selling in interstate trade may not give a lower price to one buyer than to another under the following circumstances: (1) if the buyers take commodities of the same grade and quality; (2) if the price difference (a) substantially lessens competition, (b) tends to create a monopoly, (c) injures, destroys, or prevents competition with vendor or buyer, or customers of either; and (3) if the price difference is not one merely making "due allowance for differences in the cost of manufacture, sale, or delivery resulting from the differing methods or quantities in which such commodities are to such purchasers sold or delivered."

The Robinson-Patman Act has not achieved its real goal of protecting the small independent retailer from large competitors. Many voices have long urged a careful revision of the Robinson-Patman Act, but Congress has not responded. The original act, therefore, must still be complied with in establishing discounts. Under it, once the Federal Trade Commission has established the facts that (1) the commodities are of "like grade and quality," (2) there is a price difference between buyers, and (3) the buyers are in competition, the burden of proof is upon the alleged violator; who will be held guilty unless able to prove innocence.

Trade discounts. The trade (or functional) discount is a price reduction granted to certain categories of customers to meet costs of performing particular trading functions. It bears no relationship to the amount purchased and may be given in addition to a quantity discount.

Trade discounts are usually justified by one or both of two reasons: first, by a significant variation in the vendor's cost of selling to different trade groups; second, by variations in the buyers' costs of operation. Trade discounts are not mentioned in the Robinson-Patman Act. The Federal Trade Commission and the courts have ruled that so long as various trade discounts are offered equally to all buyers in a specific grouping, they are legal.

Seasonal discounts. Seasonal discounts are percentage reductions in the billed price given to buyers to encourage ordering and sometimes accepting delivery in the off-seasons of the year. Their main justification lies in the economies which may accrue to the vendor, including the following: (1) obtaining business during normal slack periods, thus keeping the factory in operation and permitting the more even distribution of overhead costs; (2) reducing storage costs; and (3) minimizing risks due to price changes. Under the Robinson-Patman Act, a vendor may use seasonal discounts as long as the same reduction is given to all competing comparable buyers who purchase at approximately the same time.

Advertising discounts or allowances. These are reductions granted by manufacturers for various forms of sales promotional efforts rendered by the retailer, such as obtaining lower local advertising rates, engaging in cooperative advertising, providing window and interior displays, and having recommendations made by salespeople to customers.

For *competing* buyers the Robinson-Patman *Act* limits discounts for promotional purposes to those made available on "proportionately equal terms," but "proportional to what is not stated ...."' Various cases, however, make it clear that a vendor should not offer, nor should a buyer accept, a promotional allowance unless (1) it is a reasonable payment for the service, (2) it is made for a service which competing dealers in this product similarly and proportionally furnish to the vendor, and (3) it is proportionalized between the various dealers furnishing a similar service.

Brokerage discounts or allowances. The brokerage allowance or discount is a reduction granted by the vendor because the retailer makes it unnecessary for the vendor to use a broker. Thus, the payment goes to the retailer rather than to an independent broker. Since 1936, however, the Robinson-Patman Act has specifically prohibited the granting of a brokerage allowance to anyone other than a bona fide broker. A long line of Federal Trade Commission and court cases, however, makes it clear that a *vendor who uses brokers for some sales* may not grant lower prices to reflect the nonpayment of brokerage on direct sales.

Cash discounts. A cash discount is a reduction in price given by a vendor in return for prompt payment of the invoice. It is typically computed as a percentage of the amount that remains after other discounts have been deducted from the billed amount.

As long as uniform cash discounts are granted to al1 competing comparable buyers, there is no danger that they will result in price discrimination and violate the Robinson-Patman Act.

Price negotiation still legal and important. Despite the limitations of the Robinson-Patman Act, buyers still have ample opportunities to negotiate for lower prices. They can stil1 buy at the lowest lawful prices that sellers are willing to offer or accept. The act neither requires nor presents the use of discounts; it simply places limits on them when they are used. Moreover, in cases where competition does not exist, the buyer can negotiate for larger discounts. To illustrate: If the buyer takes the entire output of a vendor, there is no competition, so that any price or any discount that may be obtained is legal. Negotiating over price is still an important part of the buyer's activities. Moreover, the Robinson-Patman Act is vague and suffers from many difficulties of interpretation in borderline cases.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. A vendor offering quantity discounts must be able to show that the discounts are justified by cost savings related to the quantities sold.
2. Under the Robinson-Patman Act the alleged violator is innocent until proven guilty.

3. The amount of a trade discount offered to a specific customer by a vendor depends upon the category of that customer.
4. Cash discounts are disallowed by the Robinson-Patman Act.
5. The Robinson-Patman Act has virtually ended price negotiation between the buyer and the seller.

Answer

1. True. This is one requirement of the Robinson-Patman Act.
2. False. Once the Federal Trade Commission has established the facts that the commodities are of "like grade and quality," that there is a price difference between buyers, and that the buyers are in competition, the burden of proof is on the accused. The vendor is guilty until proven innocent.
3. True. Trade discounts are quoted based on the various classifications of middlemen used in the marketing of a specific product.
4. False. As long as uniform cash discounts are granted to all competing comparable buyers, there is no danger they will violate the Robinson-Patman Act.
5. False. Negotiating over price is still prevalent. Where there is competition, the act neither requires nor prevents the use of discounts; it merely places limits on them where they are used. In cases where competition does not exist, the act does not apply, so that any prices or any discount the buyer can obtain is legal.

Terms of sale: Datings

The dating of an invoice refers to the time before which any specified purchase discount may be taken and also to the time at which payment for the merchandise becomes due. To illustrate: Terms of 2/10, n/30 mean that a 2 percent discount may be taken within a 10-day period and that full payment is due in 30 days from the date of the invoice. These periods of 10 days and 30 days make up the dating of the bill. Datings are of two broad types, immediate and future. COD (cash on delivery) is the only form of immediate dating. Under this dating discounts must be taken and payment made upon receipt of goods. COD datings are relatively rare.

Future datings. Several kinds of future datings are used. "Net 30 days" is a good example of an *ordinary dating*. When no specific dating is placed COD the invoice, “n/30” is usually assumed to be the period covered. In *extra datings* the vendor allows added time before the ordinary dating period begins. Thus, if the terms are "2/10, 60 days extra," the buyer has 60 days before the ordinary dating of 2/10, n/30 begins. *EOM dating* means that the ordinary dating period begins at the end of the month in which the purchase is made.

Three kinds of future datings are used in which the invoice date is not the point from which either the discount or the due date of the invoice is calculated. *Advance dating* simply sets some date after the invoice date from which the ordinary dating period begins. *Seasonal dating is* similar except that the later date is related to the seasons. EOG (receipt of goods) *dating* means that the ordinary dating period begins on the date the goods are received.

Future datings are used because most retailers need credit for a period long enough to allow them to turn at least part of their purchases into cash. EOG datings are preferred by buyers located at some distance from vendors because they place the buyers in a position comparable to those receiving ordinary datings and located nearer sources of supply. EOM datings are granted by sellers chiefly as a convenience to their customers.

ANTICIPATION. Most large retailers are financially able to pay their bills before the due dates. These prepayments, made primarily to keep their funds at work by earning an extra discount, are referred to as "anticipation." To illustrate: The retailer may take the cash discount plus 6 percent interest on the balance for the number of days remaining until the end of the cash discount period. Thus, an invoice for $1,000 with terms of 2/10, n/30 is paid five days before the end of the discount period. The 2 percent cash discount is equal to $20, leaving $980. But this balance is subject to a reduction equal to 8 percent interest for five days, that is, 82 cents. Hence, the actual payment made by the retailer is $979.18. Some retailers consider anticipation to be good practice in that it gains the goodwill of vendors; tight money in recent years, however, has tended to disrupt the practice.

DISCOUNT LOADING. A few retailers practice loading; that is, they charge to selling department's any excess in the amount of the cash discount arbitrarily set by the management above that actually received from vendors. For example: A store sets 6 percent as the cash discount which all buyers must receive on purchases. If a buyer receives only 4 percent, the department is charged, or loaded, with the extra 2 percent.

Loading is practiced mainly for three reasons: (1) the large cash discount set induces buyers to drive harder bargains; (2) all inventory and purchase figures are placed on a comparable basis; and (3) higher retail prices are set when based on inflated invoice costs, particularly in stores using fixed percentage markups.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. The dating of an invoice determines the time during which a trade discount may be taken and the date at which the invoice must be paid.
2. “Net 30 days” dating is the only example of immediate dating.
3. Anticipation is an extra discount computed after all other applicable discounts have been deducted from the invoice price, and it allows the retailer to earn a return by prepaying invoices.
4. Discount loading is used as a stimulus to encourage vendors to offer more liberal discounts.

Answer

1. False. The dating of an invoice determines the time during which a *cash* discount may be taken and the date at which the invoice must be paid.

2. False. COD (cash on delivery) is the only example of immediate dating. Under this dating, discounts must be taken and payment made on receipt of the goods. "Net 30 days" is an example of "ordinary dating." This is the period usually assumed when no specific dating is placed on the invoice.
3. True. Anticipation is computed on the invoice price less any applicable discounts. Retailers receive an extra discount equal to interest on the amount due for the number of days which they have prepaid their bill before the end of the cash discount period.
4. False. Discount loading is used as a stimulus to encourage *buyers* to seek more liberal cash discounts.

Other negotiations for merchandise

Price guaranties. Sometimes buyers seek guaranties against possible future price declines. For placing their orders early, they may ask for both seasonal discounts and price guaranties. The vendors may agree that if they later lower their prices, they will refund to the buyers the difference between the prices at which the orders were placed and the prices at shipment. This practice is fairly common with seasonal items for which the vendor is eager to encourage early orders. It is also used to encourage the placing of extra-large orders on staples during periods when the price structure is uncertain.

Transportation terms. Transportation terms offered by vendors may take several forms. When prices are quoted f.o.b. factory, the buyer pays all transportation charges from the vendor's delivery platform; when quoted f.o.b. shipping point, the vendor delivers to the local shipping point but the buyer pays all further transportation charges; and when goods are sold f.o.b. store, the buyer has no transportation charges to pay.

Promotional and other services. Buyers may sometimes negotiate for promotional help from the vendor, such as signs, product demonstrations, and even payments to store salespeople. Some suppliers offer complete merchandising services such as taking inventory and replenishing stock.

Exclusiveness of goods. Often the exclusive right to handle certain goods in a city is as important to the retailer as are low purchase prices. Through the exclusive agency the retailer hopes to benefit from the goodwill the manufacturer has acquired and to eliminate direct price competition. But the arrangement involves certain risks: (1) the agency may be subsequently terminated because of a change in the manufacturer's policies and (2) obtaining the agency may require a willingness to drop all competing lines thus losing those customers who prefer the other brands.

The purchase order

When negotiations have been completed, the buyer prepares a purchase order form. This form should be suited to the store's requirements, provide protection against unscrupulous vendors, and permit giving vendors shipping instructions and the condition's under which the merchandise ordered will be accepted.

"Preretailing" refers to the practice of placing the retail price of the items being bought on the stores copies of the purchase order (1) at the time the order is placed, or (2) at least before the actual receipt of the merchandise. When the shipment is received, marking and attaching of price tickets may proceed without delay.

Transfer of title

Transfer of title, the final major step in the buying process, usually takes place when the vendor releases the merchandise to a common carrier for delivery. Thereafter, responsibility for the merchandise lies with the buyer; if goods are damaged in shipment, the buyer's recourse is against the carrier, not the vendor.

Consignment buying and memorandum buying. When goods are bought on consignment, title to the merchandise remains with the vendor and the retailer is relieved of such risks as those of price decline and obsolescence. These risks remain with the vendor who agrees to accept the return of any merchandise not sold. Vendors engage in this practice for two reasons: mainly (1) to induce retailers to stock their goods and (2) because it usually gives them the legal right to fix the resale price. This right is being increasingly restricted by court decisions.

Memorandum buying, in general, is a method of obtaining merchandise involving features of both outright purchase and consignment buying. Contrasted with consignment buying, title usually passes legally to the buyer; but since the buyer retains the same privilege of returning goods as under consignment buying, most of the risks remain with the vendor. The retailer, therefore, as the owner of the merchandise, is free to price it as desired.

Returns of merchandise to vendors. This practice is common for several reasons. The goods shipped may not be as described or may fail to conform to specifications or samples, or they may be defective. Merchandise may not have arrived on time, necessitating markdowns if the peak of demand has passed; or wrong quantities may have been shipped. When making returns, such action should be taken promptly, and vendors given a full explanation.

To minimize disagreements between retailers and vendors on cancellations and returns, "basic trade provisions" are at times prepared jointly by retailer and manufacturer trade groups.

Indicate whether each of the following statements is true or false by writing or "F" in the space provided.

1. Price guaranties are of primary benefit to the vendor.
2. A buyer would prefer to purchase goods under the terms of *f.o.b. store* rather than under the terms of *f.o.b.* factory.

3. “Preretailing” is an activity conducted by the store buyers.
4. Under consignment buying, the retailer never takes title to the goods.

Answers:

1. False. Price guaranties are of primary benefit to the purchaser. They protect the buyer against future price declines on merchandise for which an early order has been placed. If the price is lower when the goods are shipped, the buyer receives a refund equal to the difference between the price at which the order was placed and the price when the goods are shipped.
2. True. Under the terms of *f.o.b stores*, the vendor would have to pay the transportation cost.
3. True. The retailer carries out "Pre-retailing". It involves placing the retail prices of items being bought on the store's copies of the purchase order at some time before the actual receipt of the merchandise. This practice facilitates the marking and attaching of price tickets. Sometimes vendors pre-mark the goods for stores.
4. True. Under consignment buying, the retailer acts as a selling agent for the vendor, and title passes form the vendor to the retailer's customer.

CHAPTER 12
MERCHANDISE CONTROL

Learning Objectives:

After studying this chapter you will be able to:

1. Describe the nature and purpose of merchandise management.
2. Identify the goals of merchandise management.
3. List the basic types of merchandise control systems.
4. Give examples of the benefits of unit control.
5. Use EDP to prepare merchandise control records.
6. Determine the physical inventory.
7. Identify stock shortages.

Finding satisfactory solutions to merchandising problems is not easy. Policies governing all aspects of merchandise management must be formulated and implemented with effective procedures adapted to the needs of the particular store.

The nature and purpose of merchandise management

Merchandise management, or stock control, refers to the maintenance of a stock of merchandise adjusted to the demands of customers and prospective customers. The desired balanced relationship is obtained through an appreciation of its benefits by proprietors, buyers, and others; the development and use of appropriate procedures and forms which will provide information needed by buyers to know when, what and how much to buy; the revision of procedures and forms to meet changing requirements; and through analysis and interpretation of the data collected and the actions taken as a result thereof. It is the use of the gathered information that makes control possible.

Goals of merchandise management. The main purposes of merchandise control are to satisfactorily meet customer demands, maximize profits, provide accurate buying information, and maintain inventory at a level consistent with the optimum use of investment. Other objectives include minimizing the amount of slow-selling merchandise carried, aiding sales through improved assortments and cleaner stock, and emphasizing the importance of the fundamental continuing relationship between stock and sales in achieving profit goals.

Limitations of merchandise control. Stated concisely, these limitations are as follows: (1) Control methods are only an aid to judgment, not a substitute for it. (2) Frequent appraisal of systems is necessary for best results. (3) Control systems can be costly to install and operate. (4) Control is probably a misnomer, since establishment of any system does not automatically produce control. True control exists only when information is interpreted and translated into action.

Responsibility for merchandise management varies among retailers. The small retailer assumes this function personally; but in large stores, the task is more complicated and responsibility is divided among a number of people. In department stores the merchandise managers, including a merchandise controller and the controller, share the responsibility; while in chain stores it is usually centered in the controller or a special control executive at headquarters.

Basic types of merchandise control systems

Fundamentally, merchandise is controlled in one or both of two ways - in dollars and in physical units. *Dollar control is* exercised in terms of the amount of money at retail prices invested in merchandise. Control by physical units, or *unit control, is* usually accomplished in terms of individual items or pieces of merchandise. Dollar control answers the question "how much merchandise - in total dollar value - is on hand in the store or department"; unit control goes further and attempts to tell what is the actual assortment.

Dollar control. Dollar control usually involves the maintenance of records designed to provide the desired information in terms of retail prices and the use of such data as a guide in buying. It may apply to the whole store as a unit, to departments, to classifications of merchandise, or to price lines. Departmental control permits judging the profitability of each section and the performance of each buyer. Strong and weak departments may thus be determined.

Classification control or "classification merchandising," based upon groupings of related types of merchandise within sections, has been widely adopted in recent years.
Price-line control is based on price lines, that is, the particular prices at which assortments of merchandise are offered to the public. Just as departments may be divided into classifications to effect better control, classifications (or departments) may be broken down into price lines to provide more detailed information. But price-line control does not naturally follow classification control; rather, it is often used as a substitute for classification control. Price lines may also be broken down into classifications, such as material, style, and size.

DOLLAR CONTROL SYSTEMS. Department, classification, and price-line control may be operated either through a perpetual or a periodic inventory system. Under the former, a constant, on-going record is kept of merchandise receipts and sales (in dollars). Adding receipts to beginning inventory and then subtracting sales (and markdowns) indicates the inventory that *should* be on hand. Thus, Beginning inventory, $100,000 + Merchandise receipts, $50,000 - Sales, $60,000 = Expected inventory, $90,000. If a physical count shows the actual inventory to be $88,000, the $2,000 difference is the size of the merchandise shortage.

The periodic inventory method compares the beginning inventory plus merchandise receipts with a subsequent physical count of the goods. Any merchandise not on hand is assumed to have been sold. Thus, Opening inventory, $100,000 + Merchandise receipts, $50,000 - Next inventory, $88,000 = "Sales" (actually sales and shortages), $62,000. The periodic dollar inventory is much less useful than the perpetual one but requires less comprehensive records.

In retailing organizations, a modification called the retail inventory method is often used. It is designed to permit control of merchandise in terms of retail prices and to permit approximate net earnings to be calculated for a period without the necessity of taking a physical inventory. It requires that inventory and purchase figures be maintained at both cost and retail prices. It is described further in Chapter 20.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. The main purpose of merchandise management is to reduce the size of the inventory.
2. The responsibility for merchandise management almost always falls upon the retailer personally.
3. The two methods of merchandise control can be viewed as complementary rather than opposing concepts.
4. Dollar control can be in terms of cost and retail values.

Answer

1. False. Customer demands must be considered. Merchandise management seeks to identify and maintain an inventory which permits the enterprise to properly service its customer at the lowest cost compatible with such service.
2. False. The small retailer usually assumes this function personally, but in large stores the responsibility is divided among a number of people. In large enterprises the responsibility of merchandise management is more typically assigned as a coordinated function of the control division and the merchandising division.
3. True. The two methods of merchandise control look at different dimensions of the same phenomenon.
4. True. Cost and retail values may be utilized. In most business firms outside of retailing, dollar control systems are in terms of cost only. Since the retail inventory method is common in retailing organizations, dollar control systems in retailing organizations frequently utilize retail prices. Chapter 23 describes this method in detail.

Unit control involves maintaining records in terms of physical units rather than in terms of dollars. Such control is a supplement of dollar control.

Unit control systems. These systems may provide physical unit information on sales and stocks by any characteristics of the merchandise desired, as well as data concerning markups, markdowns, gross margin, and so on, to meet the store's needs. Like dollars control, unit control may be accomplished through either a perpetual inventory or a periodic physical inventory system. Under a perpetual inventory system, each item is recorded when it arrives and when it is sold. Under the periodic inventory system, also called a reorder-time system, the only way to determine the quantity of an item on hand is to make an actual count. No record of how many should be on hand at any time is available since outward movements are not recorded at the time of sale.

Other systems. Used with either or both of the two unit control systems described, other forms have been developed to meet special requirements as follows:

1. *Requisition or reserve stock control.* This system operates through the reserve stock and provides needed control over goods such as drugs and cosmetics, where unit control in the selling department is not feasible. Requisitions are drawn on the stockroom by the selling department for groups of items known as units, and such withdrawals are considered as sales.
2. *Warehouse control system.* Control over such warehouse items as furniture and television sets - commonly sold from samples in the store, with delivery made from warehouse stock - may be exercised either in the store or the warehouse, or in both places. When sales are made, sales checks are sent to a control operator who stamps the warehouse copy to indicate it has been entered. This step permits prompt entries in the control books which are accessible to department managers and assistants for review. These records, however, necessitate the maintenance of some records at the warehouse to facilitate inventory taking and to assist stock workers.
3. *Reminder systems.* Two types of reminders are often used with periodic systems to ensure that inventories are counted on the proper dates. *A tickler file* may be set up with compartments or pages for the dates on which stock is to be counted and the appropriate items are entered thereon. Or similarly a *checklist* may be prepared that shows the most important items and the frequency with which they are to be counted.
4. *Reorder point systems.* This alternative to the periodic unit control system relies upon a predetermination of the stock level at which the item should be reordered. That minimum quantity is marked physically, perhaps by bundling it together or by placing a reorder card in the stock at the appropriate point. The buyer is notified when the stock sells down to this level and orders a replenishment.

Benefits of unit control. As a buying tool, unit control yields these benefits: (1) it reveals what goods are selling best and those which are selling slowly; (2) it shows the proper time to buy merchandise; (3) it aids in establishing model stock plans, thus ensuring well-balanced stocks; and (4) it reveals, where the perpetual inventory system is used, the quantity of stock on hand at any time without taking a physical inventory.

As a selling tool, unit control provides assistance as follows: (1) it shows the age condition of the stock, thereby indicating the items requiring markdowns or special promotion; (2) it reveals the best-selling items; (3) it minimizes out-of-stock situations; (4) it serves as a guide in planning special sales events; and (5) it saves time for the customer by giving precise information on particular items in stock.

When the unit control system has been set up, control has been only partially accomplished. The data must be analyzed, interpreted, and used. Unless they are translated into improved buying practices and better balanced stocks, the system is a failure.

In spite of these advantages many merchants reject unit control as too elaborate, time consuming, and costly. Often, however, this is a criticism of poorly designed or misapplied systems rather than of unit control itself. Some buyers fear unit control as a threat to their authority, but their number is declining as more experience its benefits.

IT and merchandise management

Large retailers are increasingly using IT systems to prepare merchandise control records. Although a department store system may cost millions, it will provide immediate information of great value to buyers and merchandisers. These systems will provide daily (or even more frequent) “Flash" reports on sales activity and prompt analyses of sales by style, color, price line, or other desired information. The computers can be programmed to provide exception reports that identify especially fast-selling and slow-selling items; less costly systems, often involving time sharing, are available to smaller retailers.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. Unit control of inventory provides a minimum of information; typically, it only indicates the number of units of an item which are on hand.
2. Unit control is a more useful tool for buying purposes than is dollar control.
3. The key to the proper employment of a unit control system is proper analysis and use of the data generated by the system.

Answer

1. False. Unit control of inventory can provide information on sales and stocks by any desired characteristics of the merchandise.
2. True. Unit control yields much more information about *specific* characteristics of items of inventory than does dollar control.
3. True. No matter how well thought out a unit control system is, unless the data it yields are properly analyzed and acted on, the system is a failure.

The Physical Inventory

The physical inventory - an actual counting and listing of the goods in stock at a given time, together with the cost or retail price of each item-is necessary to determine the financial results of a particular period. But it is also an important aspect of merchandise control.

As of a specific date, the physical inventory shows the kinds, quantities, and values of the items in stock by any detail desired. It aids the retailer to improve buying and selling methods, enables unit control and other stock records to be checked, and furnishes the figures to compare with book inventories to determine the stock shortage or overage.

Accuracy and completeness are essential in taking the physical inventory. Consequently, it should be carefully planned, the information listed by competent personnel, the calculations and summaries checked, and the inventory reports promptly issued.

Stock shortages

A stock shortage is the unaccounted for disappearance of merchandise expressed in terms of retail prices. Such shortages result primarily from dishonesty and errors in records.

Dishonesty as evidenced by thefts of merchandise by employees, customers, amateur and professional shoplifters, and even armed robbers is of increasing concern to retailers.

To minimize stock shortages resulting from dishonesty, retailers are taking such steps as installing burglar alarm systems and having regular police protection; selecting, training and supervising employees more carefully; using human "spotters" and television "eyes" throughout the store; and acquainting employees with the characteristics and practices of typical shoplifters (see Chapter 23).

The errors or honest mistakes causing stock shortages are almost legion returns, delivering the wrong merchandise, billing credit customers, making change for cash customers, recording markdowns, and so on. These errors may be minimized, but not eliminated, yet continuous attention should be given to this problem.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. A physical inventory is only taken where book inventories are not maintained.
2. Pilfering and shoplifting are problems of the retailer which have increased in magnitude in recent years.
3. Mechanical means are being used to discourage shoplifting and other thefts.
4. With great care, errors and honest mistakes can be eliminated.

Answer

1. False. Even companies that maintain book inventories perpetually take a physical inventory; the comparison of the two figures points out any stock shortage or overage.
2. True. Retailers have been subject to increasing losses due to pilfering and shoplifting.
3. True. For instance, burglar alarms and television "eyes" are being used.
4. False. Errors may be minimized, but not eliminated.

CHAPTER 13
HANDLING INCOMING MECHANDISE

Learning Objectives:

After studying this chapter you will be able to:

1. Facilitate the activities in receiving and distributing merchandise.
2. Establish requirements of effective performance.
3. Develop effective processes for layout and receiving merchandise.
4. Formulate procedures for receiving and recording incoming merchandise.
5. Implement a method to establish checking procedures.
6. Devise methods for marking merchandise.
7. Prepare a process to distribute merchandise.

Merchandise that is purchased must be delivered to the store and made available for inspection by customers. This process includes the related activities of receiving, marking, distributing and traffic, all requiring control.

Activities involved

Receiving refers to taking physical possession of merchandise (and also supplies and equipment) at the store and its movement to the area where it is opened and checked. Checking includes a matching of the purchase order against the invoice, opening of container, removal and sorting of merchandise, and comparison of the quantity and quality of the goods with the specifications. Marking consists of placing information on the merchandise on price tickets attached to or placed near the merchandise. Distributing refers to the moving of merchandise from the marking room to the stockroom, or to the sales floor. Traffic deals with choosing routes for shipments, filing and deducting damage claims, and auditing of transportation bills.

Requirements of effective performance. Requirements for the effective performance of the activities described include the use of specialized employees when the work is sufficient to justify the cost, the development of routines to increase the speed and accuracy with which they are performed, the centralization of receiving operations and provision of adequate space, the use of mechanical equipment to reduce cost wherever feasible, and the maintenance of adequate control records.

Today, retailers are turning to the mechanization of receiving, marking, and related functions. Space shortages, higher labor and material costs, and keener competition are forging top management attention upon these activities.

Centralization of activities common. Except in small stores, centralization of receiving operations is common for the following reasons: (1) It affords better control over incoming merchandise by lessening the danger of lost invoices and discounts. (2) It permits use of specialized employees; ensuring more uniform and better quality of work at lower cost. (3) It overcomes the objections of salespeople who dislike doing such work. (4) It avoids the confusion and congestion that result when goods are opened and marked on the sales floor.

In locating a centralized department, certain considerations are decisive: the value and adequacy of the space, its location in relationship to stockrooms, and its proximity to the selling floors. For merchandise sold by sample, such as furniture, TV sets, and refrigerators, warehouses are operated by large stores in relatively low-rent districts. Receiving, checking, marking (if any), and storage are performed in the warehouse, with delivery made direct to the customer's home.

Layout and equipment for receiving

Efficiency in receiving merchandise, and the activities associated therewith, is dependent in part upon adequate space and its proper utilization, the equipment provided, and the work methods employed. Small stores, of course, do not require any special facilities or special layouts, since merchandise is commonly unloaded on a sidewalk or is carried into a back room. It is unpacked and marked at the convenience of an employee or the manager.

In larger stores the layout depends upon the system used in handling the goods received. Three methods are widely employed, and a fourth involving the use of mechanized conveyors - is increasing in use. The most common method is the use of a stationary table or a check-marking table. Merchandise is unpacked, sorted, and placed on tables. After being checked and marked, it is moved to the stockroom or the sales floor.

The second method used is the portable table. Goods are placed on tables with wheels where they are sorted and checked for quantity. Tables are moved to another section for marking. The bin method involves dividing the receiving room into two sections, one for checking and one for marking, with a series of bins or openings dividing the sections. As merchandise is checked on tables in one section, it is shoved through the bins onto tables in the other section, where marking takes place. Most large retailers use a fourth method --mechanical conveyor belts or roller conveyors -- to move merchandise through the checking and marking operations. Even the movement to stockrooms or selling areas may be by such equipment.

Receiving procedure

To clarify our discussion of layout and the facilities required for handling and checking merchandise, some methods in use have already been mentioned. We now return to the actual receiving of merchandise and note the steps necessary before goods are placed on sale.

At the receiving point (platform, dock, or sidewalk) all boxes and cartons should be inspected upon delivery to determine possible damage to merchandise. This inspection does not include the merchandise itself. Concealed dam-age or loss will not be revealed until the containers are opened and the goods removed.

Receiving records. Recording of incoming shipments is essential. The information required varies among stores, but usually includes date and hour of arrival, apparent condition of the shipment (e.g., any damage), weight, delivery charges (if paid by the retailer), shippers name and location, form of transportation, person making the delivery (e.g., name of truck driver), number of pieces, amount and number of invoice, and the department for which the merchandise was bought.

Several benefits result from the use of the receiving record. It provides data useful in cases of disagreement between vendor and the store. By placing the invoice number on the receiving record, each invoice is associated with the proper merchandise. The receiving record allows management to check the length of time invoices and merchandise are held in the receiving room, finally, by requiring that invoices be checked against receiving records before they are paid, the store avoids payment of invoices covering merchandise not yet received.

When receiving records are completed and proper notations placed upon containers, the merchandise is moved to the checking and marking room. Large retailers are adopting electronic POM (purchase order management) systems in which the merchandise receipts are compared with a computerized record of the buyer's order. The systems print appropriate price tickets and authorize payment to the resource.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. The current trend in retailing is for the receiving function to be centralized.
2. Mechanized conveyors are used by most retailers in handling goods upon receipt.
3. All inspection of the incoming goods is accomplished at the receiving point.
4. The receiving record (report) permits the retailer to check and determine the correctness of any invoices received from suppliers.

Answer

1. True. The receiving function is typically centralized to achieve the advantages of better control, specialization, employee morale, and less confusion and congestion.
2. False. The uses of mechanized conveyors are only widespread among the larger retailers. And even many large retailers still uses the stationary table, portable table, or bin methods. Small stores generally do not use mechanized conveyors.

3. False. Only the inspection of the shipping container for any obvious damage usually is accomplished at the receiving point. Inspection of the merchandise itself does not take place until the containers are opened and the goods are removed.
4. True. Receiving reports are great use in determining the appropriateness of vendors' invoices.

Checking procedure

Checking consists of four distinct steps: (1) the invoice is checked against the purchase order, (2) merchandise is removed from the shipping containers and sorted, (3) goods are checked for quantity, and (4) goods are checked for quality.

Checking invoice against purchase order. By comparing the invoice with the purchase order, it can be determined if the description and quantity of the goods billed are the same as those ordered and if the terms of sale on the invoice are as stipulated on the purchase order.

Unpacking and sorting merchandise. Most merchandise arrives at retail stores in various types of containers and cannot be checked until opened and sorted. Some firms do not perform these tasks until invoices are available. This prevents removal of goods before they are checked in and aids in preventing a stock shortage. The practice also enables any discrepancies between the purchase order and the invoice to be re-checked immediately.

Checking for quantity. The two main methods used in checking incoming merchandise for quantity are the direct check and the blind check. Variations of these methods are also employed by some retailers.

THE DIRECT CHECK. Under this method incoming shipments are usually checked directly against the invoice. If the invoice is not available, the shipment is commonly held until the invoice arrives. Its main advantages are speed, simplicity, economy, and the ease of rechecking when discrepancies are revealed. Probably its chief disadvantages are the possibility of careless checking and the piling up of goods in the receiving room to wait for invoices.

THE BLIND CHECK. This method consists of listing for each shipment the kinds and description of the merchandise, the quantities, the shipper, and other pertinent information without reference to the invoice. The list is then checked against the invoice by an employee other than the one making the original listing. This procedure results in more careful checking, allows immediate checking and placing of merchandise on sale even if the original invoice is delayed, cost figures are not divulged, and invoices move promptly to the accounts payable office.

As for disadvantages, the blind check is more expensive than the direct check, since extra time is required to prepare the list and check it against the original invoice. Also, if merchandise is removed from the receiving room before the list is checked against the original invoice, a recheck is impossible.

OTHER CHECKING METHODS The *semiblind method* saves time and expense as compared with the blind check. A checker is provided a list of the items in a shipment but with the quantities omitted, then the checker simply counts the merchandise and enters the quantities. The combination check employs features of both the direct and blind check methods. Its object is to obtain an accurate count of the goods received and to speed up their removal from the receiving room. If invoices are available when the merchandise is received, the direct check is used; but if goods arrive and an invoice is not at hand, the blind check is used.

Checking bulk *merchandise* is different from that of other goods. When this merchandise is received, both the number of bulk containers and the weight of the contents in each must be checked.

Checking for quality. *The usual basis of quality checking is the buyer's experience,* knowledge of quality and values, and memory of the merchandise purchased. Presently, however, many large firms provide their buyers with objective standards for judging quality. Some buyers purchase samples in showrooms and check merchandise received against these samples. All of them, however, are aided by standards and specifications established by the government, the trade, the vendor, or by the retailer firm itself.

Marking merchandise

Marking merchandise by means of price tickets, gummed stickers, an automatic imprinting system, or even by hand before placing it on sale is common among retailers. Certain basic principles exist as a guide in this process regardless of the methods or devices used.

1. Goods should be marked legibly, ready, and as permanently as possible without damage to them. Rubber stamps and marking machines have practically solved this problem.
2. All necessary information should be placed on the price ticket, if one is used, at the time the merchandise is marked.
3. Merchandise should be so marked as to minimize changing of prices either by employees of the store or by customers.
4. When a record of articles sold daily is desired for control purposes, price tickets with perforated stubs should be used.
5. Certain items should be marked in some manner, usually in addition to the price ticket, which will prevent their wear or use by the customer before they are returned.
~~2.~~ 6. Merchandise should be marked as quickly and economically as possible consistent with accuracy and the type of merchandise handled.

Formatted: Bullets and Numbering

Some additional reasons for marking. There are other reasons for marking merchandise than those indicated in the preceding section. Marking merchandise with the price, size, color, and other data aids salespeople in serving customers. It creates customer goodwill, since customers prefer to deal with retailers who treat all patrons the same and marking is an indication that the store does so. The markings, especially the price, encourage customers to serve themselves, thus reducing sales effort. Marking also simplifies taking the physical inventory. Finally, marking the date the goods were received aids management in selecting specific items for price reductions, thus improving the store's merchandise control.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. One of the steps employed in checking is the comparison of the vendor’s purchase order with the retailer’s invoice.
2. The *combination check* method involves simultaneously ascertaining the quantity and the quality of the shipment.
3. The buyer is usually the retailer’s key agent in checking for quality when receiving is centralized.
4. The sole purpose of marking is to provide price information to the customer.

Answer

1. False. In checking, the retailer notes any deviations of the *vendor's* invoices from his or her (the retailer's) purchase order.
2. False. The combination check method employs both the direct check and the blind check in proving the *quantity* of the incoming merchandise. If invoices are available when the merchandise is received, the direct check is used. If the invoices are not available, the blind check is used.
3. True. The usual basis of quality checking is the buyer's experience, knowledge of quality and values, and memory of the merchandise purchased.
4. False. Marking may provide much more information than merely the price. In addition, proper marking permits the retailer to achieve better control over merchandise by facilitation the taking of a physical inventory and by aiding management in selection items for price reductions.

Marking Procedure. At least three procedures are followed in marking merchandise. Immediate marking, the most common one, involves the marking of each item in the desired manner as promptly as possible after its receipt. Delayed marking refers to the practice of writing the retail price and other necessary information on the outside of the containers only, after which the merchandise is moved to a reserve stockroom. When it is needed on the sales floor, containers are opened and the individual items marked. Under group marking, containers are marked on the outside when goods are received, as in delayed marking, and sent to the reserve stockroom. Later, they are moved to the selling floor without marking the individual items; instead, the merchandise is grouped in set locations and the price indicated by a nearby price tag.

How and where merchandise is marked. The desired information may be placed on merchandise in several ways, including writing it on the container, using a rubber stamp, and attaching labels or tickets to the merchandise by hand or using a machine designed for this purpose.

Some retailers have salespeople do marking on the selling floor during their spare time. This should be done only as a last resort because any cost saving that results is usually more than offset by frequent errors, slower marking, and less legible price tickets. It is advisable whenever feasible, therefore, to concentrate marking in the checking and marking room. Such a location facilitates the use of marking machines.

Authorizing marking. Regardless of who does the actual marking or where it is done, authorization is necessary to ensure that it is done correctly and promptly. In the small store the proprietor may do this by entering the proposed price on the invoice. In the large store markers are usually instructed through the invoice (or a copy of it) after it has been entered for payment, checked against the purchase order, and the goods are examined and priced by the buyer. Some stores use a priced sample for this purpose.

Marking is often authorized through a process known as *preretailing*. This practice requires that the buyer place the retail prices of the items being bought upon the store's copy of the purchase order at the time the order is placed. It offers two main advantages: (1) It forces the buyer to consider the retail price at the time of purchase, thereby discouraging purchases which do not seem likely to provide the desired market. (2) Marking is expedited because it can begin as soon as the goods arrive.

Source marking. The Universal Product Code (UPC), a set of thick and thin vertical lines now placed on packaged food products identifies the commodity, the brand, and the package size. A scanning device at the sales register can read this identification and obtain the price from a file in the store’s computer. Whole marking procedure nowadays is UPC oriented.

Outside marking of fashion merchandise A growing trend in marking practice is the hiring of outside carrier firms to mark fashion goods Stimulated by the opening of new stores or branches and the inability of the central location to expand its processing space fast enough to permit prompt movement of merchandise to the other stores, many retailers now engage in this practice.

Remarking. After merchandise has been marked and placed on the sales floor it often becomes necessary to remark it. Price reductions (markdowns) or price increases may be advisable; some merchandise returned by customers must be remarked; price tickets may have become soiled, torn, or lost; and departmental transfers of merchandise may cause for remarking. Since *all* marking should remain under the control of the marking room manager all remarking should be done under the same supervision even if it is done on the selling floor or adjacent thereto.

In re-marking merchandise, retailers follow two quite different policies. Some believe that the original price should remain on the merchandise, perhaps just crossed out and the new price added, so that the customer understands a bargain is available. Other retailers prefer to replace the entire price tag and show only the new price.

Distribution of merchandise

After incoming merchandise has been marked, it is ready for distribution to the reserve stockroom or to the selling floor. Usually, the marking room manager knows from past experience where to move the goods.

Traffic department

Our discussion thus far has been concerned largely with the movement of merchandise after it reaches the store. But the retailer is also interested in its transportation from the vendor to the store, that is, in obtaining faster deliveries and in reducing costs. Since no buyer can, in addition to other duties, be familiar with the ever-changing transportation field, large-scale retailers have established traffic departments. The functions of this department include the selection of the best routes for shipments; the trading of shipments; the checking of freight classifications and rates, including the auditing of transportation bills; the payment of transportation charges; the placement and collection of loss and/or damage claims; and other activities associated far exceed the cost of performing these functions.

Chain store handling of incoming merchandise

Among chain store firms with their own warehouses, there is a considerable variation from the procedures so far discussed. Receiving and checking are performed at two points - in the warehouse and again in the store. In the former, special facilities are employed to handle the large volume of goods, such as pallets moved by highlift trucks, overhead track towveyor systems, towline arrangements, roller conveyors, and electronic controls.

At the individual stores, receiving typically consists of having a truck deliver the goods to a rear door. They are then moved by conveyor or by hand inside the store. The manager checks for quantity, and if shortages are found, the driver signs for them. The invoice is either returned to the driver or sent to headquarters by mail. Checking for quality is done at the warehouse.

In chain firms with relatively small units, prices are set at headquarters and each store manager is notified of those to be used. Actual marking is usually done in the store, although there are many exceptions to this practice. Women's apparel chains typically place price tickets on garments before shipment from their warehouses. Many drug, variety, and hard-lines chains use pricing devices at their warehouses, where they premark some merchandise, at a lower cost and an increase in accuracy. Grocery, drug, hardware, and variety chains depend, to a large degree, on group marking - placing prices on large containers and bins for floor displays and using shelf tickets - with self-service stores commonly stamping the price on the individual item. Some chains pay their vendors to premark the goods.

Organization for incoming merchandise

As noted, in small stores the proprietor, perhaps assisted by a salesperson, handles incoming merchandise. The store with two or three buyers may make each of them responsible for receiving the lines they purchase.

Centralizing is so advantageous, however, as soon as an organization is large enough -- receiving, checking, marking, distributing, and traffic are usually placed under the operations manager or superintendent. A receiving manager or a traffic manager exercises day-by-day responsibility. In contrast, some large- and medium-sized stores place these activities under the controller or the merchandise manager. Some firms are even creating distribution managers with broad responsibility over traffic, warehousing, and inventory control.

Indicate whether each of the following statements is true or false by writing "T" or "F".

1. *Immediate marking* is the most commonly employed marking procedure.
2. Retailers should be encouraged to have salespeople do marking on the selling floor during their spare time.
3. Source marking is carried out through the cooperation of the vendor and the retailer.
4. The existence of a traffic department in a retail enterprise implies nothing about magnitude of operation of the enterprise.
5. As an enterprise increases in size, The buyer's responsibility for overseeing incoming goods is generally assigned to other individuals.

Answer

1. True. Most retailers utilize the immediate marking procedure.
2. False. Any cost saving that result usually is more than offset by frequent error, slower marking and less legible price tickets.
3. True. The vendor of the goods utilizing price tags and/or marking information provided accomplishes source marking by the retailer.
4. False. The existence of a traffic department implies that operations of the enterprise outweigh the costs of maintaining it.
5. True. Larger enterprises generally centralize the responsibility for overseeing incoming shipments under someone other than the buyer.

CHAPTER 14
PRICING

Learning Objectives:

After studying this chapter you will be able to:

1. Establish a sound pricing policy to maximize profits.
2. Define the competitive pricing method.
3. Formulate markup procedures.
4. Identify some of the factors influencing markup.
5. Formulate procedures for adjustments in selling prices.
6. Define the purpose of leader merchandise.

Sound pricing essential to maximize profits

Judicious pricing is necessary to prevent failure and to maximize profits. In some instances, discussed in Chapter 17, suppliers or government will set retail prices. Usually, however, merchants must establish general pricing policies for their firms and then determine individual item prices in accordance with those policies. The price policies of a store must be consistent with the rest of its marketing mix, that is, appropriate to its atmosphere, service level, merchandise, advertising, and clientele.

The long-run point of view. Certain points concerning pricing for maximum profits should be made clear at the beginning. (1) A long-run point of view should be maintained. When starting business the retailer may sell at low prices to develop trade. This may not maximize short-run profits, but if it attracts a sufficient volume of business, profits will be maximized in the long run. (2) Pricing goods to maximize profits does not mean that each item sold must earn a profit. It is total profit, not that on any item, which is important. (3) Maximum profits do not necessarily result from selling at high prices. Profits are the result of the relationships among sales, prices, costs of merchandise, and expenses of operation. Sometimes these factors may indicate that prices should be raised and sometimes that they should be lowered. (4) Pricing for maximum profits is an art as well as a science. Retailers must use intuition and judgment to modify all pricing formulas.

One-price policy

Adherence to a one-price policy is customary . among retailers in this country. Under this policy each item is offered for sale at one price to all customers who buy in comparable quantities and under similar conditions. For example, a man's shirt is priced at $9.00 or two for $17.50; and no matter who happens to be the buyer, the price will not vary.

A one-price policy is so prevalent that we usually overlook the possibility of a retailer following other policies, such as a variable-price policy. Under the latter policy retail prices are determined by direct bargaining between customers and salespeople. A one-price policy increases customer confidence, and individual bargaining is time consuming for both salespeople and customers. Today the store following a variable-price policy is the exception to the rule. But it still prevails among retailers of automobiles, electric refrigerators, radios, television sets, and other consumer durable goods. Because trade-ins are frequent, bargaining is necessary to establish a value for such goods. Most retailers do give systematic (predetermined) discounts to employees, and some allow similar reductions to senior citizens and other groups.

Range of prices. The store may offer a broad spectrum of prices, from inexpensive to deluxe, or it may concentrate on a narrow selection of prices. The extreme version of concentration is a single-price policy in which the store sells all of its merchandise at the same price. For example, a necktie shop may sell every tie at $1.98. This helps attract customers, but it focuses attention on price and is a difficult policy to follow during periods of inflation or deflation.

Price lines. Price lining consists of selecting certain prices and carrying assortments of merchandise only at these prices, except when markdowns are taken. For example, men's ties may be carried at $2.50, $3.50, and $5.00; or women's dresses at $29.98, $39.98, and $49.98. Price lines provide the customer with a wide assortment from which to choose without the distractions of many small price differences between items. By selling at a few price lines, salespeople become well acquainted with the prices and make fewer mistakes. The size of the store's stock may be reduced, turnover increased, markdowns decreased, stock control simplified, and interest and storage charges lowered.

ESTABLISHING PRICE LINES. Price lines are usually set after a careful analysis of past sales reveals the prices at which the bulk of the sales were made. Sometimes past sales are disregarded, the retailer simply selecting several price classes and requesting salespeople to push those chosen to get them established. Seldom will a store want fewer than three to provide a balanced selection and price range. But constant review of price lines is essential.

PRICE LINES IN PERIODS OF GENERAL PRICE CHANGES. As customers' incomes and wholesale prices change, the retailer may want to shift price lines. Some maintain the same price lines and lower the quality sold at each price as prices rise, while others maintain quality and raise prices to absorb increases in wholesale prices. Still others meet rising prices by raising both the quality and the prices. Probably the best policy to follow during periods of price and income changes - whether rising or falling - is to change price lines only when necessary to maintain quality.

LIMITATIONS OF PRICE LINING. Price lines force buyers to get merchandise that will carry a sufficient markup when placed in a certain price line to realize a profit. Obtaining adequate assortments is sometimes difficult. Price lining also limits the store's ability to meet competitors' prices, involves the danger that the price lines used will not be acceptable to customers, increases the difficulty of maintaining price lines and uniform quality when changes occur in price levels — recognizing the likelihood that price lines tend to multiply over a period of time — and often results in focusing attention on price rather than on the merchandise.

Competitive position

The most basic price policy decision is whether to sell at, below or above competitors prices. Low-price stores generally have certain common characteristics: limited service, utilitarian store design and layout, high volume, limited selection, and aggressive buying policies. Stores that sell above competitors normally rely on prestige, unusual merchandise or services, or a locational advantage. But escaping from price competition is very difficult, since even with these advantages, too broad a price differential will drive customers away. This is particularly true of staple or branded merchandise that permits easy price comparisons. Also, most stores have at least some competitors with about equal prestige, assortments, and services.

Markup

Retail markup means the amount that is added to the cost price to arrive at the retail price, a relationship often stated in the phrase "cost plus markup equals retail." This amount may be expressed in dollars or as a percentage of the retail price. For instance, an item costing 80 cents and sold for $1.20 carried a markup of 40 cents, or 33 1/3 percent. Merchants often have to calculate a retail price when only the following two factors are known: (1) the cost of the goods and (2) the desired markup expressed as a percentage of retail. In such cases they divide the cost by the *complement* of the markup percentage, that is, the difference between the markup and 100 percent. For example, an item costs $9 and a markup of 25 percent is desired. Then $9 divided by 0.75 (1.00 - 0.25) = $12. Markup may refer to a single item, a department, a store, or a chain of stores.

Initial markup versus gross margin. The initial markup, also known as the "original markup" or the "markon" is the difference between the cost and the first retail price placed on the goods. Again assume the item first priced at $1.20 carried an initial markup of 40 cents, or 33 percent. But customers refused to buy it at $1.20, and it was reduced to 98 cents and sold. The difference between the cost and the actual selling price, 12 cents, or 18.4 percent, is known as the " maintained markup" or "gross margin."

But what exactly is meant by cost? Since the retailer wants to know the cost of goods delivered to the store, "cost of merchandise" means the invoice cost of the goods minus discounts plus inward transportation charges. The retailer who wants an initial markup of 40 percent on goods with a net cost of $93.20 would price then at $155.33.

Indicate whether each of the following statements is true or false by writing "T" or "F".

1. A drop in prices, holding volume constant, can result in increased profits.
2. Most retailers sell at various prices to different customers, depending on such things as their bargaining ability.
3. An item costing $75 and sell for $100 has a 33 1/3 percent markup.
4. The initial markup for an item may equal the gross margin for that item.

Answer

1. False. Any price drop must be more than offset by an expansion in volume sold if profits are to increase.
2. False. Most retailers adhere to a *one-price* policy. They sell at one price to all customers who buy in comparable quantities and under similar conditions.
3. False. In the merchandising field modern practice is to compute markups and selling price. Therefore, an item costing $75 and selling for $100 has a 25 percent markup.
4. True. When the price determined with the initial markup is held until the time of sale, the initial markup is equal to the gross margin for that item.

Role of markup in pricing. It is easy to assume that markup can be used as a simple mechanistic method of selling fees, as follows: A retailer's records reveals operating costs are 29 percent of sales and profit 3 percent. Thus, pricing goods to obtain a gross margin of 32 percent on sales will cover costs and realize a profit. This procedure demands more than a 32 percent initial markup, however, because of markdowns, employees' discounts, and loss from pilferage. Assume that total reductions (mark downs, shortages, and discounts to employees) are 6 percent of sales. Using the formula:

Initial markup percentage

$$\frac{\text{Gross margin + Retail reductions}}{\text{100 percent + Retail reductions}}$$

The retailer arrives at the following initial markup percentage:

$$\frac{\text{32 percent + 6 percent}}{\text{100 percent + 6 percent}} = \frac{\text{38 percent}}{\text{106 percent}} = \text{35.85 percent}$$

Thus, to get a gross margin of 32 percent, an initial markup of approximately 36 percent is needed.

USING ONE OR SEVERAL MARKUPS. While a valuable guide, retailers find it unwise to add the average markup to all their goods. They realize that those with the same cost may vary markedly in customer appeal; that competition may not permit it; that some goods may require markdowns and necessitate a high initial markup; and that it costs more to sell some goods than others since they need more display, more time from the salesperson, and more advertising. Consequently, higher-than-average markups are necessary to meet these facts.

Many retailers divide their stocks into several groups and apply different markups to each group. A food retailer, for instance, may take an initial markup of 30 percent on fresh fruits and vegetables and only 20 percent on canned goods. Similarly, a retailer of women s dresses and more staple women's apparel items may take markups such as 50 percent on some items and 30-40 percent on others.

INDIVIDUAL ITEM PRICING. Even the use of several markups for different commodity groups may not result in maximum profits. Numerous stores, therefore, are looking more at item profitability and setting a price maximizing the item's contribution to dollar profit. To implement such pricing, some large firms have made studies of the turnover rate of various items priced with different markups. For example, voluntary chain wholesalers prepare price guides suggesting to their retailers the most profitable markups for each item they carry.

Some factors Influencing markup

The following are among the factors causing variations in markups for specific items or groups of merchandise.

Customer appeal or the goods. Although two items may cost the store the same amount, customers may be willing to pay more for one than for the other. On the other hand, low markups have a varying ability to stimulate the sales of different goods.

Private brands. Even though they usually retail for less than national brand products, private brand (store brand) items normally carry a higher percentage markup because of their lower acquisition cost.

Customary and odd prices. Prices on certain goods, such as chewing gum and soft drinks, become more or less fixed as a result of prevailing for a long period of time. The retailer's markup for these items is thus fixed in advance. Odd prices, that is, those ending in uneven amounts such as 29 cents and $29.95, are common. Some retailers believe that consumers consider odd prices to represent bargains, but extensive research on the question raises considerable doubt that odd prices have any significant effect on customers or sales.

Price-level adjustments. Retailers find it necessary to vary markups on goods when the general price level is declining or advancing. Consider, first, the situation when the level is falling. Women's hose purchased at $8 a dozen pairs and sold at $1 a pair yields a gross margin of $4. If operating expenses absorb $3 of this amount, the store has $9 in place of the $8 it had before the hose were bought and sold. Now, as a result of a fall in the general price level, the dozen pairs of hose can be replaced in stock at a cost of $7 a dozen. In addition to the $1 profit realized, an extra $1 is available with which to buy goods. In such circumstances the retailer might well consider using a markup less than the usual one of 33 1/3 percent.

In a period of rising prices, a higher than usual markup must be taken or else working capital will decrease. For example, let us assume that the hose which cost $8.00 a dozen pairs have been sold for $12.00 and cannot be replaced for less than $9.50. Deducting the operating expenses, only $9 is left of the $12. To replenish its stock, the store must draw cash from some other source.

Indicate whether each of the following statements is true or false by writing "T" or "F".

1. Most of retailers agree that the use of an average markup for all goods is not a good pricing policy.
2. Price is a relative unimportant consideration for a retailer in planning competitive strategy.
3. Private brands sell for less than national brands and carry a lower percentage markup.
4. A change in the price level can cause a revision in the company's pricing tactics.

Answer

1. True. Retailers find it unwise to add the average markup to all their goods. Such factors as varying customer appeal, competition, probability of markdowns, and selling cost dictate that the markup on various items should differ.
2. False. Price is still a very important consideration for a firm which seeks to maintain their lower acquisition cost.
3. False. They do sell for less, but they carry a higher percentage markup because of their lower acquisition cost.
4. True. A change in the price level can cause a company to adjust the quality of merchandise and/or the specific prices, which it charges the public.

Cost of merchandise. Contrary to some opinions, the cost of merchandise does have an influence on the size of markups placed on products. Perhaps a special buy permits the retailer to place a high markup on certain goods and still meet or beat competition. In contrast, a high cost of merchandise may force a store to operate on a smaller markup than it deems advisable.

Advertising value of an item or of a department. At times, the retailer may select certain items to carry a very low markup to attract customers, Such an item is called a leader. If the item is sold for less than acquisition cost, it is called a loss leader. As noted in the following chapter, well-known, frequently purchased, national branded items are ideal for this purpose; their quality is usually recognized quickly by the customer whose familiarity with the regular price brings appreciation of the price reduction.

At times, a whole department may be kept in the operation even though it is not realizing a markup sufficient to show a profit. Department stores, for instance, often operate their restaurants or tearooms on this basis. Knowing that quality food well served in attractive surroundings may attract people into the store, the retailer may deliberately lose money in this department.

Operating cost. As has been suggested, markup is determined, in part, by costs of operation. The relatively low costs of operations for chain food stores, for instance, play a major role in their ability to undersell independent stores.

Price legislation. Markups on some goods are influenced by federal and state laws, as discussed in the next chapter.

Other factors. Markup will also be influenced by seasonal considerations (perhaps a high markup at the beginning of the season), the newness of an item, the manufacturers' policies (does the store have the item exclusively), competitive pressures including possible price wars, and other considerations.

Conclusions on markup policies. First, in establishing the general level of average markup used by a specific retailer, one of three policies may be followed. First, the retailer may aim at prices which are (a) at, (b) below, or (c) above those of competitors. Second, some retailers solve most of their pricing problems by using an average markup on practically all goods sold. Third, many firms divide merchandise into a number of classes and apply a set markup to all goods falling into each class. Fourth, the great majority of retailers deviate widely from any rule of a set markup, even for a limited class of goods. Factors of customer appeal, competition, price lining, time of season, customary prices, odd prices, cost of merchandise, considerations of turnover, the advertising value of an item, operating cost, price maintenance by manufacturers, and government price laws influence the determination of actual markups. A retailer's main interest is *total profits,* not in profits on any particular item. Markups on specific items should be adjusted constantly to reach this goal.

Note: You should look at industry data to get a sense of typical markups for your retailer type. Data are available via D&B's Key Business Ratios (www.dnb.com) , National Retail Federation books, and other sources in a business library.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. Sometimes there is an inverse relationship between cost and markup.
2. At times goods are sold at less than their acquisition cost even though they are not damaged, soiled, or obsolete.
3. The retailer’s goal is to maximize profits on each item sold.
4. The markup policies of retailers should be treated as flexible decision rules rather than static relationships.

Answer

1. True. A special buy may enable the retailer to place a high markup on these goods and still beat the competition. A high acquisition cost may force use of a small markup to meet competition.
2. True. Such goods are known as loss leaders. The purpose for doing this is to attract customers to the store, where they are likely to buy other goods (at normal markup) as well.
3. False. The retailer's goal is to maximize total long-run profits.
4. True. Retailers should constantly review and revise markup policies.

Adjustments in selling prices

Prices are constantly on trial; and changes in them are often necessary. Most changes represent decreases in prices known as markdowns; but advances, or additional markups, are sometimes made.

Markdowns. Price reductions are usually stated as a percentage of the new and lower (actual selling) price. To illustrate: When a dress priced at $25 is reduced to $20 to find customer, the markdown is 25 percent.

CAUSES OF MARKDOWNS. Among the main reasons for taking markdowns are the following:

1. Buying and pricing mistakes, the former illustrated by the purchase of goods unsuited to customers' requirements and the latter by overpricing merchandise in relation to competitors' practices.
2. A decline in the wholesale price level, necessitating an adjustment of prices downward to meet customer demand.
3. Availability of new, improved products better designed to meet the needs of customers than those presently stocked.
4. Special promotions of items at reduced prices for limited periods of time. Weekend specials by food stores and anniversary sales by department stores are examples of this practice.
5. End-of-season clearance sales to avoid carrying stocks to the following year.
6. Overselling by aggressive salespeople resulting in returns of merchandise usually requiring reductions in price.
7. Accumulation of shopworn goods and odds and ends which require selling to maintain proper stock control.

Markdowns are inevitable but not necessarily an unmitigated evil. Indeed, successful retailers look upon them as "an effective tool of retail merchandising to dispose of merchandise which is unsalable at its present selling price and thereby to keep stocks constantly liquid; to assist in the promotion of sales; and to meet competition."

TIMING OF MARKDOWNS. Disagreement exists among merchants as to the best time to take markdowns. Some delay them, hoping for additional sales at the higher prices, while others take them only during special sales events and seek to discourage bargain hunters who detract from the store's class appeal. In contrast, many retailers believe that markdowns should be taken early. This policy keeps stock fresh, reduces the size of the markdowns, attracts thrifty buyers, and avoids the cost of special sales.

1. *Some general rules.* On fashion goods, markdowns should be taken when sales begin to fall off or the peak of the fashion cycle has been reached, if any appreciable quantity is on hand. Staples should be marked down before they have become shopworn, and seasonal goods, particularly fashion items, before the end of the season. Some retailers, however, find it profitable to store those of a staple nature until the next selling season if space is available. This practice ties up some funds, involves storage cost, and results in some breakage.
2. *Automatic markdowns.* Some stores have an automatic markdown plan which controls both the time markdowns are taken and their amount. To illustrate, in the basement store of William Filene's Sons Company of Boston, after 12 selling days, unsold merchandise is repriced at 75 percent of its original prices; after 6 more days, at 50 percent; after another 6 days, at *25* percent; and after a final 6 days, is given to charity.
3. *Special sales events.* Markdown merchandise and/or goods that have been purchased at specially favorable prices may be assembled for storewide or departmental special sales events such as bargain and dollar days. These events attract heavy traffic and stimulate sales but, if overdone, may detract from the store image.

SIZE OF MARKDOWNS. Markdowns vary widely among particular items, lines of merchandise and in stores of different size for reasons already mentioned.

To be effective, a markdown must be large enough to induce customers to buy the merchandise. That is, when a reduction is advisable, the merchant should not nibble away at the price by small successive reductions but make the correction in one step. The best markdown is one just large enough to sell the goods reduced in price. But defining the ideal one is difficult. One must consider not only the tangible factors, such as the quantity of goods on hand and the rate of sale, but also such intangibles as reactions of competitors to price cuts and those of customers who bought the reduced items at higher prices. The size of the markdown is also directly related to the promotional effort that is put forth by the retailer.

MARKDOWNS UNDER PRICE LINING. Two general policies govern markdowns on price-lined merchandise. The usual one is to require that a markdown be sufficient to place the item in at least the next lower price line. The second policy consists of using special price lines which fall in between the regular price lines.

RECORDING MARKDOWNS. There are several reasons for recording all markdowns: (1) knowledge of past markdowns is essential in deciding on the initial markup, (2) data on markdowns provides a check on pilferage, and (3) knowledge of markdowns on various types of goods and their resources is an important managerial and buying aid.

Additional markups. Additional markups — the amount by which existing retail prices are advanced to new ones — are usually limited to periods of rapidly advancing prices. If retailers find that they cannot replace their present stock except at higher prices, they should — if competition permits — advance their prices to compensate for the higher replacement cost.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. The existence of markdowns is always an indication of inefficient purchasing policies.
2. If an item which was priced at $45 is reduced to $36 and sold, the item has been subject to a markdown of 25 percent.
3. It is a general rule that markdown should be accomplished through a series of successive reduction of the price of an item until all units of that item have been sold.
4. The usual reason that additional markup is taken is that the retailer’s cost of replacing the goods has increased.

Answer

1. False. Markdowns are necessitated by many factors; inefficient purchasing is only one such possible reason.
2. True. Markdowns are figured in terms of the new actual selling price.
3. False. When a markdown is advisable, it should be of such a magnitude as to facilitate the sale of all of the goods involved at the new price.
4. True. Increasing prices charged by vendors is the usual cause of retailer's additional markups.

Leader merchandising

A “'leader” or “special” may be defined as any article sold with a markup that is less than the retailer's average cost (total expenses) of doing business. Some retailers use just a few leaders at a time, that is, a supermarket advertising week-end specials. In contrast, a discount house may price almost all of its food items as leaders.

Why retailers use leaders. Retailers advance five main arguments in favor of leaders, as follows:

1. Meeting competitor. Those following this policy may meet (a) all the price cuts of all competitors, (b) only those of some competitors, or (c) only price reductions on certain items made by a limited number of retailers.

2. Variations in expenses of handling merchandise. Many goods can be profitably handled for less than the average expenses of retailing. Such items are usually highly standardized, have a high turnover with minimum markdowns, occupy relatively little space in the store, and are readily accepted by customers so that they require little selling effort.

3. Increased sales with small profit margin. Greater net profit can be made by selling large quantities at very low profit margins. The validity of this argument rests upon the shape of the demand and operating expense curves for the item under consideration. If the demand curve facing the retailer is very elastic, a leader will produce a large increase in sales; and even though the unit profit is less, total profits may increase. The serious shortcoming in this argument is that price reductions made by one seller are soon matched or bettered by competitors. Moreover, those following this policy frequently overlook the large addition to sales which is necessary to maintain profits.

4. Low markup on new items. Any markup on new items in excess of the direct cost involved results in increased profits. This fact has led some retailers to search for new customer-attracting items; for example, chain food stores have added nonfoods, such as drug sundries and health and beauty aids to their offerings.

5. Leaders as a means of advertising. The most important argument for the leader lies in its advertising value; that is, it "brings people into the store." As one successful supermarket operator once said: "A leader program has a place in building volume. The fact remains that the more merchandise you give away, the more people you attract and the more volume and profits you get."

This last argument for leaders is not the same as the third and fourth arguments stated above. Whereas both of them imply markups high enough to allow merchants to add to their profit by *increased sales of the leader itself,* this argument does not necessarily require that a profit be shown on the leader. Rather, it recognizes the validity of the theory of joint pricing in retailing - the retailer wants the price mix on the items sold that will maximize total profit, irrespective of the markup shown on any specific item.

The heart of the argument for this kind of leader pricing is this: The leader will attract a large number of customers who will also buy items carrying sufficiently large markups so that the retailer's total profits will be increased. But the implementation of this policy requires a great deal of skill. Retailers should be aware that their pricing of other merchandise should be consistent with their advertising policy. That is, since they are attracting customers by a price appeal, the use of leaders does not allow them to so overprice other merchandise that their price-conscious customers are disenchanted with their nonleader goods.

A serious disadvantage which may result from using leaders to advertise a store is that it may set off a price war. Since competitors of the price-cutter do not like to lose their position in the market, they will eventually make similar or even greater reductions. The net result may be a price war reducing the profits of all the competing retailers.

WHO FAVORED RESALE PRICE MAINTENANCE? The laws were written as though they conferred a privilege upon manufacturers, and indeed a few were strong advocates of resale price maintenance. They believed that price cutting hurt their products' prestige, drove potential dealers away, and resulted in mishandling of their goods in the price-cutting stores. But most manufacturers wanted the additional sales volume that low-price retailers could provide. The most ardent proponents of resale price maintenance were small retailers, especially independent pharmacists who believed it would handicap aggressive chain store competitors. They often induced somewhat unwilling manufacturers to adopt, or pretend to adopt, resale price maintenance to maintain their goodwill. However, the rate of chain store growth, retail business failures, and other statistics in states with and with out fair-trade laws, and the experience suggest that resale price maintenance had little substantial effect upon retail operations and profitability.

Suggested prices. Despite the demise of resale price maintenance, suppliers can still influence the prices retailers charge. A supplying firm may unilaterally confine its sales to dealers who are not likely to cut prices, but it may not do this as a result of an agreement with other suppliers or with retailers. Manufacturers may also suggest recommended retail prices and may even premark the goods with those prices. Many retailers will follow such recommendations, but the practice presents two difficulties: (1) A manufacturer cannot enforce the recommendation, and some dealers may reduce the pre-marked items as dramatic evidence of their price-cutting policies. (2) The Federal Trade Commission may consider a premarked price to be deceptive if many retailers actually sell the goods for less. A few suppliers control dealer prices by selling on consignment.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. The main reason that leaders are used is that they are effective advertising devices.
2. Many retailers employ leaders to stimulate the pricing activities of their competitors.
3. Resale price maintenance is now legally effective in all 50 states

Answer

1. True. The most important argument for the leader lies in its advertising value. It's "brings people into the store."
2. False. A serious disadvantage, which may result from using leaders to advertise a store, is that it may set off a price war. The net result may be to reduce the profits of all the competing retailers.
3. False. In 1975 the Miller-Tydings and McGuire Acts were repealed by Congress. Retail price maintenance agreements would now be in violation of federal antitrust laws.

Unfair-sales and unfair-trade practices acts. There are laws designed to provide relief to retailers from price cutting. Whereas trade laws (resale price maintenance - RPM)were permissive and applied to branded merchandise, these laws are mandatory and apply to all goods

Other price regulations. Several other recent governmental price regulations affect retailers. Four chief forms need mention:

1. *Price ticketing and posting*. Federal, state, or local laws now require price signs for such products as gasoline at service station pumps and for new automobiles. In contrast, most

states forbade advertising retail prices of prescriptions, but in 1976 the Supreme Court ruled that these prohibitions are unconstitutional.

2. *Unit pricing,* under which the price per standard unit of weight or measure (ounce, pound, pint, quart), as well as the per-package price, must be displayed on items sold in odd-sized packages. It has been adopted or is under discussion in many areas.
3. *Price advertising.* Truth-in-advertising standards and controls are being applied increasingly to the price information offered in retail advertising. Under federal regulations retailers cannot claim or imply that a price has been reduced unless the former one quoted was an actual, *bona fide* one at which the product was offered for a recent and reasonable period of time. Better business Bureaus and voluntary business organizations also issue helpful guides on price advertising. These guides help to protect reputable merchants from unscrupulous competitors and provide consumers with valuable buying information.
4. *Direct price control.* The government directly sets the prices of a few commodities, such as milk, in some communities. During emergency periods, for example, wartime, prices in general may be controlled by public regulation.

Restrictions on pricing freedom. Competitive pricing requiring pricing freedom is the heart of a free enterprise system. How far we can limit that freedom and still retain our type of economy is a major question. At some point - if we want the advantages of freedom and the high standard of living which our system offers - we must be willing to accept the rigors of price competition and not try to protect everyone from its impact.

Indicate whether each of the following statements is true or false by writing "T" or "F".

1. There have been no recent governmental price regulations which affect retailers.
2. The government sets only voluntary guidelines on prices; it does not directly set the prices of any commodities.

Answer

1. False. Recent price regulations regarding price ticketing and posting, unit pricing, and price advertising have been enacted.
2. False. The government directly sets the prices of a few commodities, such as milk, in some communities.

CHAPTER 15
ADVERTISING AND DISPLAY

Learning Objectives:

After studying this chapter you will be able to:

1. Define the task of retail advertising.
2. Explain the concept of cooperative advertising.
3. Coordinate the steps in programming retail advertising.
4. Interpret and implement a policy of truth in advertising.
5. Facilitate effective store displays.
6. Establish controls and responsibility for advertising and display.

Sales promotion efforts by retailers are of two major types: (1) those of a nonpersonal nature - the presentation of goods, ideas, or services to individuals, singly or in groups; and (2) those of a personal nature - a presentation on a personal or face-to-face basis. The first type is illustrated by advertising, display, and mail-order catalogs: the second type by personal salesmanship. Both forms of effort should be effectively coordinated to maximize profits.

The task of retail advertising

Advertising is any paid form of nonpersonal presentation and promotion of ideas, goods, or services by an identified sponsor. It is used by retailers to stimulate desire for merchandise and services, to tell people what goods and services they have available, to keep people interested in their stores between visits, to encourage customers to fulfill all their needs in their stores, and to develop goodwill for their businesses. Advertising must be coordinated with other activities of the store.

Limitations of retail advertising. Advertising is not a panacea for the retailers' management deficiencies. They should understand the warning of advertising that —

(1) Advertising cannot sell merchandise that people do not want to buy; (2) Advertising cannot sell merchandise in profitable quantities without the backing of every other division of the store; and (3) Advertising cannot succeed to the fullest extent unless it is used continuously.
This warning emphasizes the fact that advertising, to be most effective, must serve the customer as well as the store.

Forms of retail advertising. There are two main forms of retail advertising: (1) promotional or direct action and (2) institutional or indirect action. Most advertisements represent a blending of both kinds.

PROMOTIONAL OR DIRECT ACTION ADVERTISING. This advertising aims to bring customers into the store to purchase specific items of merchandise. It may take one of three forms: (1) regular price advertising, where the appeal is based on the desirability of the goods; (2) bargain advertising, which features the price appeal in relation to value; and (3) clearance sale advertising, in which the main purpose is to close out slow-moving items and broken assortments.

INSTITUTIONAL OR ACTION ADVERTISING. Designed to develop goodwill for the store to build confidence in its merchandise and services and thus to establish permanent patronage - institutional advertising has two chief forms, prestige advertising and service advertising. Prestige advertising aims to lend atmosphere to a store by acquainting customers with the retailer's alertness in assembling adequate varieties of merchandise embodying the newest ideas in style and material. Service advertising seeks to attract patronage by stressing the services and facilities offered and making the store a desirable place in which to buy.

BLENDING OF PPOMOTIONAL AND INSTITUTIONAL ADVERTISING. Many advertisements combine promotional and institutional appeals. Food store advertising, often thought of as strictly promotional in nature, is an example of the combining of the two types. A study of food chain advertising some years ago showed that the typical advertisement contained three general classes of items, with the first two predominating: (1) those differentiating the advertiser from competitors, such as items not stocked by the other chains; (2) those serving as a reminder list to customers of the breadth of stock; and (3) those priced to neutralize the previous advertisements of competitors. that is. items on which competitors' prices were met.

Cooperative advertising. This kind of advertising is that in which the retailer shares responsibility and cost with a manufacturer or wholesaler. The product is advertised over the retailers name with the resource paying a portion — typically, 50 percent — of the cost up to a maximum amount, commonly 5 percent of the retailers purchases. Perhaps as much as $2 billion is spent each year by manufacturers on cooperative advertising. The resource gains from the added interest shown by the retailer in its product, from the retailers prestige and from the lower local advertising rates obtained.

Despite these advantages, however, many manufacturers dislike the arrangement. They are dissatisfied with the return obtained from the advertising allowance, and often prefer to deal directly with the media. To retailers cooperative advertising yields benefits, such as assistance in preparing advertisements, the posters and displays supplied for use in their stores, and the increase in the total space they can afford. They should be sure, however, that the product is one with which they want their reputations associated, and be fully aware of their obligations. On balance, retailers should probably engage in some cooperative advertising but be very careful to select the best available deals.

Expenditures for retail advertising. Total retail advertising expenditures probably substantially exceed billions of dollars per year. Expenditures vary widely among stores. The small neighbor-hood food store may spend less than a few hundred dollars while Sears may spend millions annually.

Indicate whether each of the following statements is true or false by writing "T" or "F".

1. A company should strive for a proper mix of personal and nonpersonal sales promotion in its advertising efforts.
2. Direct action advertising is designed primarily to build goodwill for a specific store.
3. Cooperative advertising is characterized by the retailers of a product sharing the cost of the manufacturer's advertising the product through national media.

Answer

1. False. Advertising is one form of nonpersonal sales promotion; it does not contain any elements of personal sales promotion.
2. False. Institutional or indirect advertising has this goal. Direct action or promotional advertising aims to bring customers into the store to purchase specific items of merchandise.
3. False. Cooperative advertising has the manufacturer or wholesaler sharing the cost of advertising a product with the retailer; the media used is typically local or regional.

Steps in programming retail advertising

Retail advertising involves determining the advertising appropriation, planning the advertising, preparing the actual advertisements, testing the advertising and selecting appropriate media. These steps must be coordinated into a complete advertising program, perhaps with the aid of an advertising agency.

The advertising appropriation. The amount a store need*s* to spend for advertising will depend upon the objectives it is seeking to accomplish, together with such factors as the store's age, policies, size, location, trading area, competition, and its past success in attracting customers. It wil1 also be influenced by the rates and circulation of media, by business conditions, and what is done by other stores of similar type.

What retailers *need* to spend for advertising, however, and what they can *afford* to spend are not always the same. In deciding how much money to spend during a given period, they should (1) analyze their situations carefully, (2) define their objectives, (3) decide upon the methods they will follow in attaining these objectives, and (4) set aside the amount of money required - provided such funds are available. Their success is influenced also by such factors as the right merchandise and selling appeals, proper timing, judicious pricing, effective presentation, and coordination of the program among different media.

Effective planning. The care with which plans are made will determine the results they produce. Careful planning yields the following benefits: (1) it provides a definite concrete plan based on facts; (2) it forces a review of past experience, thus focusing attention on previous mistakes and successes; (3) it requires looking ahead — adopting a long-range perspective; (4) it takes into account all phases of the advertising program, thus ensuring attention to each and to its relationship with others; (5) it ensures proper attention to the needs of each department and each store in departmentalized and chain stores; (6) it anticipates new developments through projecting plans into the future; (7) it considers probable changes in the status of competitors and their policies; and (8) it facilitates coordination of the advertising activities with those of merchandising, store management and control.

PROPER TIMING. Correct timing of advertising efforts is essential in planning. Food retailers believe that customers usually make large purchases in the latter part of the week, and concentrate their advertising on Wednesday and Thursday. Department and specialty stores advertise heavily on Sunday.

SUITABLE MERCHANDISE. Perhaps the greatest waste of advertising dollars is promoting the wrong merchandise. The best advertisement cannot sell goods the customer does not want. In selecting goods to advertise, retailers should be guided by past experience regarding proven best sellers; by the merchandise that is selling well in other stores; by pretesting goods to determine their probable rate of sale; by their desire to promote private brands; by the advice of their salespeople (and by department heads in larger stores); and by considerations of timeliness, buying habits of the community, variety, and frequency of purchase.

Preparing the written advertisement. The preparation of the actual advertisement involves three steps - developing and writing the copy, choosing the illustration, and making the layout.

THE COPY. Copy refers to the reading matter of an advertisement. Since human wants and needs are the basic influences motivating behavior, the retailer's advertising copy should contain appeals to them, that is, the copy should interpret the want-satisfying qualities of the retailer's offerings in terms of the consumer's needs and desires.

THE ILLUSTRATION. Illustrations are used frequently to attract attention, to show the merchandise and/or its use, to lend atmosphere, and to confine the reader's observation within the advertisement and direct attention to other parts of it. The illustration should be simple, clear, and appropriate; focus attention on the points desired; contribute more to the value of the advertisement than would an alternative use of the space; and "face" into the advertisement.

THE LAYOUT. A layout usually consists of a sketch showing the location of the text, headline, and illustration in the advertisement. The advertising dept could just create the ad copy on the computer then scan the copy and send it to the newspaper for insertion in the next issue. A good layout should (1) have attention value and be pleasing to the reader; (2) provide the desired emphasis by focusing attention on the heart of the advertisement; (3) reflect the character of the store and the things for which it stands; and (4) make effective use of type faces and sizes, white space, slogans, and the like in conformity with the best standards of advertising practice.

Testing retail advertising. Checking or testing the effectiveness of their advertising is essential for retailers. Tests commonly take one or both of two forms: (1) checking the advertisement prior to its insertion in chosen media - the precheck; and (2) checking the results produced - the aftercheck. Numerous difficulties, however, are encountered in measuring the effectiveness of advertising. It is almost impossible to measure the effects of past sales promotion efforts. And it is even more difficult to predict the effects of any combination of sales promotion devices in the future. Although keyed advertisements may be employed and offerings of certain merchandise restricted to particular media, for example, other relevant factors cannot be held constant. Thus, a customer entering a store to purchase one item may see another advertised item on display and purchase it.

Selecting appropriate advertising media. In choosing the media for their advertisements, retailers should carefully evaluate all those available to them in the light of the objectives they seek to accomplish. Each medium should be appraised in terms of (1) the store's present and prospective customers - their location, buying habits, reading habits, and income; (2) cost in relationship to the funds on hand for advertising; (3) advertising media used by competitors; (4) trading area of the store; (5) size of the store; and (6) the kind of message to be sent - whether it be of limited or general interest, or whether it is institutional or promotional in nature.

Newspapers with a relatively low cost for wide circulation and the ability to depict products have long been the favorite retail advertising medium. Internet advertising (on search engines such as Google and Yahoo) is gaining in usage as retailers become more familiar with them. Advertisements can be targeted toward specific consumer market segments through direct mail (by controlling the mailing list), by selecting appropriate Internet media, and by using suburban newspapers, special sections in metropolitan papers, and hobby and local magazines.

Truth in advertising

The effectiveness of retail advertising is dependent upon the confidence of readers in the honesty of the advertiser. As two students note: "If advertising does not have the confidence of most consumers, it will lose its influence and surely die. If people grow to disbelieve a substantial percentage of the advertising messages that come to them, they will soon tend to reject most or all advertising." Yet some retailers are guilty of misleading and exaggerated claims in their advertising, thus bringing discredit to themselves as well as making readers skeptical of advertising in general. Consequently, leading retailers, manufacturers, advertising people, the government, and others have long been active in curbing the unfair advertising practices of this small group. These efforts have been aided by the Better Business Bureaus, the *Printers Ink* model statute against unfair advertising, the Federal Trade Commission, and such federal acts as the Wheeler-Lea Act of 1938 and the Food, Drug and Cosmetic Act of 1938.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. One prime consideration in deciding on the advertising appropriation is the promotional strategy of competitors.
2. Timing is regarded as a critical factor in determining the success of advertising.
3. An aftercheck is never run on an advertisement which has been subject to recheck.
4. The advertising field has been negligent in not supporting any movement toward truth in advertising.

Answer

1. True. The promotional techniques employed by a retailer's competitors will affect the retailers advertising budget.
2. True. Proper timing is essential for effective advertising. Food retailers concentrate their advertising on Wednesday and Thursday, whereas department and specialty stores advertise heavily on Sunday.
3. False. Many advertisers subject their advertisements to pre- and post-test of effectiveness. But the effectiveness of past or future advertising is difficult, if not impossible, to measure accurately because other variables cannot be held constant.
4. False. The *Printers' Ink* model statute against unfair advertising represents an effort on the part of the adverting community to encourage truth in adverting. It is in there own best interests to promote public confidence in advertising.

Store display

The growth of self-service has brought increased emphasis on display in stores of all kinds and sizes. More attention is being given to the coordination of window and interior displays with advertising and personal salesmanship in order to build a balanced sales promotion program.

Window displays. The primary purpose of window displays is to prevent passersby from passing by. Windows have become somewhat less important with the decline in pedestrian shopping. But the display windows that face onto the pedestrian concourse help promote shopping center stores, and windows are also vital to downtown shops. Window displays encourage the sale of specific merchandise and create prestige for the store.

Perhaps most display money is still allocated to windows. It is unfortunate that often windows are not properly planned, effectively dressed, or frequently changed. Too many merchants still consider window dressing as a necessary evil, delegate the responsibility to untrained employees, and refuse to purchase needed window fixtures and supplies. The inevitable result is that sales are lost because the store is considered unprogressive.

Interior displays. Interior displays constitute practically the only method of inside sales promotion other than window displays in some stores — particularly supermarkets and many small grocery, drug, and hardware stores. They may be classified into three groups (1) merchandise displays, (2) dealer displays and (3) store signs and decorations.

MERCHANDISE DISPLAYS. Constituting the most important type of interior display, merchandise displays are of three main kinds: (1) open displays, which make merchandise accessible to customers without the aid of a sales person; (2) closed displays, consisting of items shown inside a wall case or showcase and that are inaccessible to customers without the aid of a salesperson; and (3), architectural displays those providing an appropriate setting showing various articles of merchandise in use, such as in model homes or complete kitchens.

DEALER. DISPLAYS. Dealer displays, also known as point of sale (or point of purchase) advertising, consist of signs, banners, display racks, and other selling aids supplied by the manufacturer, including those used in windows. They encourage sales in two ways — by reminding salespeople of the product and its merits, thus encouraging suggestion selling and by informing shoppers of a product at the very moment they are in a buying mood.

STORE SIGNS AND DECORATIONS. The term store signs includes countersigns, price cards, window signs, posters, elevator cards, and similar devices. These selling aids are used by retailers, but mostly by stores making frequent use of special promotions and sales events. Decorations refer to distinctive displays and related preparations for such special occasions as Christmas, Halloween, and anniversary sales.

Responsibility for advertising and display

Regardless of store size, responsibility for advertising and display activities carries with it the obligation to originate and to appraise such activities and to combine them effectively to attain the desired goals. In small stores, responsibility rests with the proprietor. In larger ones, it is centered in the publicity director or the sales promotion manager, who may have the assistance of an advertising agency. Under this executive may be a display manager or director of visual merchandising in charge of window and interior displays, an advertising manager who directs the work of the advertising department, and perhaps a fashion coordinator responsible for miscellaneous methods of promoting sales of the types mentioned in the previous section.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. Store display is currently being downgraded as an effective promotional technique.
2. Many type of retailers rely on interior display as a major method of sales promotion.
3. Dealer displays are an expensive form of advertising for the retailer.
4. Even in large stores the senior executive takes sole responsibility for advertising and display activities.

Answer

1. False. Store display is now regarded as an effective promotional tool. The growth of self-service has brought increased emphasis on displays of all kinds.
2. True. Interior displays constitute the only method of inside sales promotion for some retailers, notably supermarkets, variety stores, drugstores, and hardware stores.

3. False. Dealer displays are provided by the manufacturer of the advertised product.
4. False, In large stores the responsibility for advertising and display rests with the publicity director or sales promotion manager.

Internet Advertising

BANNER ADVERTISEMENTS. Before leaving the topic of advertising, both creative and media, it is important to introduce a new form of advertising—*banner advertising*. Banner ads are one popular form of online advertising. Banner ads are graphic images in Web pages that are often animated and can include small pieces of software code to allow further interaction. Most importantly, they are "clickable," and take a viewer to another Web location when chosen. Banner display ads were made up 21 percent of entire Internet revenues in 2006 according to the Interactive Advertising Bureau (www.iab.net).

Banner ads typically run at the top and bottom of the page, but they can be incorporated anywhere. The CASIE organization (www.casieonline.org) has developed a small number of standard sizes and formats. Like the Web itself, banner ads are a mixture of approaches, with elements of traditional print advertising and more targeted direct advertising. Banner ads include direct marketing capabilities. Each banner carries with it a unique identifier. This allows the Web site to track the effectiveness of the ad in generating traffic. Measurability permits ad banner pricing based on results and behavior. Click-through pricing ignores impressions and charges the advertiser based on the number of viewers that select the ad and follow it to the linking Web site.

Admittedly, the performance of banner ads to date has been less than stellar. One company, San Francisco-based Organic, has approached the problem of ineffective online advertising with a product called "expand-o." This new ad vehicle allows an advertiser to include some of its Web site's content in an expandable banner ad. At the click of a mouse, the advertisement expands to as much as five or six times its original size. For instance, an expand-o for Fort Washington, PA-based CDNow provides consumers with a sample of dynamically updated content housed on the music retailer's site. When the consumer clicks an arrow on the ad, it expands to show the top 10 songs in CDNow's top 100 Billboard Chart.

PLAYING THE SEARCH-ENGINE GAME. More and more companies doing business online find that the best way to reach prospective customers is through their Web searches. After all, most customers looking to make a purchase online start with a keyword search. Results like that are fueling rapid growth in the industry. Spending on paid listings, paid inclusion, and search engine optimization—the three forms of search-related marketing—almost quadrupled in the U.S. from $923 million in 2002 to $3.5 billion in year 2005. Globally, such spending is expected to grow fivefold to about $7 billion a year by 2007 from $20 billion in 2006.

Paid listings—The hottest category in search marketing is paid listings—short text advertisements, with links to the advertiser's site, that appear on the pages that display the results of an Internet search. Marketers refer to these ads as pay for placement, pay for performance, pay per click or cost per click—terms that reflect how the system works for advertisers.

Paid inclusion—Paid listings can be pricey, particularly for companies whose product lines are so complex and fluid that they would have to buy listings for a multitude of keywords and continually buy new ones to cover their inventory. For these companies especially, an alternative, paid inclusion, can be an effective way to increase visibility on the Web. In paid inclusion, a company pays a search engine for the right to submit the entire content of its Web site, or selected pages, directly to the search engine's database.

Search-engine optimization—This term is defined as the act of altering a company's Web site so that it may rank well for particular terms' used in Web searches. The idea is to get the company's site to the top of the results of a Web search, or at least on the first page of the results. One relatively easy change to make is to use simple terms or words that everyone would understand to describe your products—and therefore be more likely to use in a search—instead of industry jargon.

CHAPTER 16
OTHER NONPERSONAL METHODS OF RETAIL SALES PROMOTION

Learning Objectives:

After studying this chapter you will be able to:

1. Develop and implement telephone and mail-order selling procedures.
2. Promote sales through packaging.
3. Label to promote retail sales.
4. Devise consumer premiums to promote retail sales.
5. Initiate special promotional events.
6. Identify other methods of sales promotion.
7. Generate publicity.
8. Meet government regulations and safety standards.

In addition to advertising and display, other nonpersonal methods of sales promotion are used by retailers. Among these are telephone and mail-order selling, packaging, labeling, and consumer premiums, including trading stamps.

Telephone and mail-order selling

Substantial growth in telephone selling has not taken place until recently. In contrast, mail-order selling by retailers has long been accepted as an easy and convenient method for customers to buy needed merchandise and have it delivered.

Today, both large and small stores actively encourage telephone or mail-orders in their advertising. The extent of this practice is evident from the advertisements in the Sunday issue of any metropolitan newspaper, many of which contain the statement “Mail and Phone Orders Filled.” In fact, ordering by telephone and by mail has become so common that on occasions —such as special sales—customers must be reminded that no mail or telephone orders will be accepted. In addition to soliciting orders through newspapers, stores issue small catalogs or booklets to emphasize fashion, seasonal, and other merchandise.

Other illustrations of telephone and mail-order selling are of interest. The J. C. Penney Company purchased a small mail-order firm and placed order desks in many of its stores. Sears, Roebuck and Company, Montgomery Ward & Company, and Spiegel, Inc., also provide telephone service through telephone offices, catalog offices, and retail stores.

Factors encouraging telephone and mail-order selling. The telephone has come into widespread use because buying in this manner is convenient and is demanded by many buyers as a customer service. The inconveniences of shopping are avoided, and there is no tiresome walking to do and no driving and parking problems to solve. The average order for general merchandise is probably substantially higher than the average floor sales check.

The telephone offers the retailer an easy method to contact customers and point out especially advantageous purchases. Improved telephone-selling equipment is now available. As for mail-order selling, it is easy to insert a few words in advertisements indicating that the same merchandise can be purchased by mail. Customers, therefore, can avoid the *traffic* and congestion in downtown shopping areas. Both mail-order and telephone selling enable stores to maintain frequent contact with their customer and thus increase sales.

Telephone selling as a business builder. The telephone can build business for the retailer in the following ways:

1. Customers can be notified of the arrival of merchandise not in stock at the time of their visit to the store or of the arrival of merchandise which has been ordered especially for them.
2. Personal calls to customers can be made when new merchandise arrives.
3. New residents can be tactfully solicited on the telephone, although this practice should be carefully followed.
4. The telephone can be used in an effort to revive inactive credit accounts. With friendliness and a desire to obtain facts, one can (a) express regret over the decreasing volume of business from the credit customer, (b) ascertain any cause for dissatisfaction, (c) make the commitments deserved by the circumstance, and (d) solicit an increase of future business.

Disadvantages of telephone and mail-order selling. Many retailers are reluctant to use these forms of sales promotion because they fear customers will be kept from visiting their stores. Others object to telephone and mail-order selling because the merchandise sold is more likely to be returned than that bought in the store, resulting in increased costs and reduced profits. Some operating disadvantages must also be overcome. Sufficient stock must be maintained to permit fulfillment of all orders, delivery service provided, and arrangements made to collect on COD transactions and/or to extend credit to customers who purchase on this basis. Some expense and trouble are also involved in training and keeping a telephone and mail-order staff.

The future of telephone and mail-order selling. Disagreement exists among retailers concerning the future importance of this business. Those who have obtained satisfactory results from these sales promotion methods believe they have a bright future, but those who have not obtained the expected benefits often reach an opposite conclusion. On balance, it seems that the current sales increases from these methods of selling are in line with fundamental trends, and that further gains may be expected. But each retailer must determine the extent of utilization of these devices, based upon their effect on sales volume and their relationships to the store's other forms of sales promotion, competitors' practices, and customers' buying habits.

Successful telephone selling depends upon (1) proper selection and training of personnel; (2) a satisfactory wage scale to attract the desired type of employee; (3) proper working conditions, including adequate facilities; and (4) competent supervision.

Indicate whether each of the following statements is true or false by writing "T" or "F".

1. The main appeal to the customer of telephone and mail- order selling is the low markup on the items which they purchase.
2. When telephone and/or mail-order selling is adopted, additional sales personnel must be employed.

Answer

1. False. The main customer appeal of telephone and mail-order selling is the convenience involved.
2. True. The addition of telephone and/or mail-order selling necessitates the recruiting, training, and supervising of additional sales personnel for their specialized sales positions.

Promoting sales through improved packaging

Today, well-conceived packages are essential both in self-service stores and in those which rely mainly on salespeople. Packaging also influences both store layout and display since the maximum effectiveness of packages cannot be obtained without good display techniques and appropriate fixtures.

Four main factors have led to the growing interest in packaging by manufacturers and retailers: their desire to meet their customers' wishes, the realization that the package is an effective tool of sales promotion, the growth of the self-service and self-selection store, and various technological changes. All of these factors are interrelated; each factor is partly cause and partly effect of the others.

Retailer preferences in packaging. Retailers want packages that attract customer attention, protect the product, make the product available in proper amounts or sizes, reflect the nature and use of the product, offer convenience in handling and placing on the shelves and in customer use, make effective displays, are moisture proof, and are easily identified so that the customer is aided both in the selection process and in the rejection of substitutes. They also want packages which are not deceptive to the customer, such as results from slack filling. Manufacturers and private-branding retailers engaging in deceptive packaging had only themselves to blame when the late President Kennedy urged a government program looking toward improving packaging standards and achieving more specific disclosure of the quantity and ingredients of the product inside the package.

Labeling to promote retail sales

Labeling is the placing of text or pictorial material upon a product or attaching such information to its container. It has long been used to the expansion of self-service stores and the passage of federal legislation—labeling has become an important tool of sales promotion.

Retailers have much to gain from the awakened interest in labeling. Labels may promote additional sales and reduce selling costs by requiring less aid from salespeople. Since the added information helps customers select goods better suited to their needs, their goodwill is gained and fewer merchandise returns result.

Truth in packaging and labeling. Governmental efforts are being directed toward better labeling practices. Witness the 1966 enactment of the Fair Packaging and Labeling Act, designed to provide consumers with accurate information on packages and labels to facilitate price comparisons. Although the highly controversial provision in the original bill requiring standardization of packages was deleted, the remaining sections improve labeling by, among other things, prohibiting the use of misleading pictorial matter, requiring a list of the ingredients on the package or label, forcing a definition of size of serving when a package or label specifies it will serve any stated number of people, and eliminating such words as "jumbo" quart. In addition, a net-quantity statement must appear on the label.

Subsequent legislation and proposals that are likely to be enacted in the near future require additional information about ingredients, health hazards, nutritional values, and product care.

Consumer premiums to promote retail sales

The use of consumer premiums as traffic builders and as sales stimulators for retailers has assumed boom proportions in recent years. They may be used to induce customers to pay their bills on time, to watch demonstrations, to sell specific merchandise identified by brand, and to promote continuous customer patronage.

Types of consumer premiums. From the continuous customer-patronage point of view, a premium may be defined as a tie-in arrangement in which a product (the premium), not part of a seller's regular sales assortment, is sold at a discount or given away in return for purchases made in the regular sales assortment. There are two major types of such arrangements from the retailer's viewpoint: (1) the single transaction offer in which the customer may obtain the premium with a single purchase, either as a gift or for the payment of a small additional amount; and (2) the continuity offer involving a series of purchases to accumulate coupons, cash register tapes, or the like to obtain a premium.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. Packaging can be regarded as nonpersonal sales promotion.
2. The Fair Packaging and Label Act requires only that any information presented on a package must be truthful.
3. An automobile tire dealer’s offer of “Buy three tires and get the fourth free!” is an example of a single transaction premium.

Answer

1. True. There is growing interest in the use of packaging as a non-personal sales promotion technique.
2. False. The Fair Packaging and Labeling Act requires that *certain* information *must* be presented (*e.g.,* volume, ingredients) and that all information presented be truthful.
3. False. This is not premium offer (since tires are the retailer's regular sales assortment) but rather a unique way of quoting the prices of four tires.

Factors in growth of premium merchandising. Some attempts have been made to interpret the widespread use of premiums by retailers "merely as a phase of a cycle entirely comparable with the past." One authority, however, has emphasized several causal factors that indicate such an interpretation is not justified.

1. The dominance and bend toward limited service distribution of food and allied products at retail. Consequently, (a) manufacturers can expect little help from dealers through personal selling efforts, and (b) shelf positions, display, and price are relatively more important in influencing purchases by consumer-buyers.
2. Paralleling this trend is that toward one-stop shopping by consumer-buyers at single enterprises or in integrated shopping centers.
3. The high degree of concentration of volume in chains, supermarkets, voluntary chains, cooperatives, and large-scale or organized groups has made it increasingly essential for manufacturer to focus their promotional efforts more sharply and more effectively, especially in the food field.
4. Sales promotional difficulties and necessities have been accentuated by three developments in brand promotion: (a) the rather complete knowledge and acceptance of the commodity as such by consumers in many product fields involving heavy consumer expenditures; (b) the general acceptance of several brands of such products as almost entirely interchangeable, and (c) the growing importance of chain and other controlled brands.
5. An exceptional opportunity for premium selling directed at children has been created by: (a) the increasing proportion of the population in the lower age levels and (b) the enormous increase in the number of TV sets in American households.

Special events

Fashion shows, floral exhibits, celebrity visits, sports demonstrations, cooking schools, and other *special events* are used to attract customers and build goodwill.

Joint promotions. Both special events of the sort described above and *special sales* events (birthday sales, clearance sales, and similar activities mentioned in Chapter 16) are sometimes conducted jointly by all the stores in a shopping center or a neighborhood group. These events have proven so successful that downtown merchants in many cities have also had to organize their own joint promotions.

Sales promotion by other methods

Many other forms of sales promotion are employed. Supermarkets have used games of chance (various forms of bingo) as substitutes for trading stamps. Many stores provide a sampling of foods and candy, and still others use home economists to promote the sale of appliances.

Publicity

Free publicity can be helpful, although most merchants greatly overrate its effectiveness. But particularly in the smaller communities the store that can supply the news media with information about latest fashion and merchandise developments and store events of genuine public interest can receive useful publicity. Publicity releases should be written in factual, newspaper style.

Governmental concern over sales promotion practices

In addition to seeking the improvements in packaging and labeling referred to previously, the federal government has shown concern for the consumer in other ways. Recently, both the federal and state governments have been increasingly active in their efforts to protect consumers from misleading sales promotional materials and to provide greater safety in the use of various products. Among activities of the federal government are the work of the Federal Trade Commission attacking the use of in-package coupons and "free" offers, and of the Consumer Product Safety Commission, which is now using voluntary checkers in retail stores. Particular attention is being given to items covered by the Flammable Fabrics Act, the Poison Prevention Packaging Act, and the Refrigerator Door Safety Act.

At the state level, of chief interest, perhaps, is the formation of consumer advisory councils in many areas to protect consumers against deceptive practices. The studies of Ralph Nader and his associates have contributed to this movement.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. There is general agreement that premium merchandising is merely a fad.
2. Much premium merchandising are aimed at children.
3. Special events and special sales events sponsored by all stores in a shopping center have generally proved unsuccessful.
4. There is increased effort by state and federal governments to protect consumers.

Answer

1. False. Many people believe that premium merchandising is permanently entrenched as an important promotional technique.
2. True. Manufacturers have directed a great deal of their premium selling efforts on products whose purchase can be influenced by the children of the household.
3. False. They have proven so successful that downtown stores have had to organize their own events.
4. True. Both federal and state government has increasingly tried to protect consumers from misleading sales materials and unsafe products.

CHAPTER 17
PERSONAL SALESMANSHIP

Learning Objectives:

After studying this chapter you will be able to:

1. Explain the importance of retail salesmanship.
2. Identify the elements of a retail sale.
3. Describe the selling process.
4. Cultivate procedures to meet objections.
5. Formulate guidelines for management's responsibility for personal salesmanship.

Except for self-service stores and purchase from vending machines or by mail, a customer-salesperson relationship is essential to complete a sale. The impression customers receive from salespeople often determines their opinions of stores. Stated positively, the customer should be treated pleasantly and courteously, should be made to feel welcome in the store, should be given honest and useful assistance in purchasing suitable merchandise, and should obtain a feeling of confidence in the store and its offerings. These are the goals of retail salesmanship; it should be the goal of every salesperson to aid in their accomplishment.

Current importance of retail salesmanship

Someone has defined salesmanship as "selling goods that won't come back to customers who will." If merchandise sold to customers adequately meets their needs, if the prices paid represent good values, and if customers are satisfied with the services rendered by the store, then these customers will continue to patronize the store. This regular patronage is necessary for stores to operate successfully and is based upon goodwill — the disposition of a pleased customer to return to the store that rendered good service.

The Customer-Is-King concept of salesmanship — to look at everything from the customer's point of view — is relatively new. For many years, the doctrine of *caveat emptor* (let the buyer beware) prevailed. Today, however, the idea is to help people to buy. The preference of satisfied customers for particular stores and salespeople is built upon their faith in the honesty and the sincere desire of stores and salespeople to serve the customers' interests.

Some observers believe that the era of informed, creative personal selling has passed and that impersonal selling now prevails. As one discount house operator has said: "We don't want salesmen in our organization. Our clerks are trained to be courteous, to answer customers' questions and give them what they want, but not to waste time trying to sell them anything. Selling has become an unnecessary vocation." Those who take this position are influenced by developments such as the preselling of customers by national advertising; the growing part of the selling task assigned to merchandise displays, packaging, and labeling; the rise of self-service and self-selection stores; and by the thought that the automated store lies just ahead.

Although these factors have lessened the importance of personal selling in some stores, this activity is still essential in the vast majority of them and, despite its shortcomings, the great need is for improvement rather than curtailment

Need for improvement of retail salesmanship. Retail salesmanship today leaves much to be desired. Too many salespeople are either uninformed about the merchandise they sell or too uninterested to tell the customer what they do know. Discourteous treatment of customers is much too common, and slow service is not the exception. The current situation has changed little from that described by the late Pierre Martineau 20 years ago. "It is ironical that at the very time when a better educated and discriminating shopper expects more . . . management is dragging its feet in upgrading salespeople. Stores are more beautiful and interesting; they have escalators, air conditioning and improved fixtures; they have buyers ranging far and wide to offer the broadest merchandising selection. But what about the salespeople?"

Improving retail salesmanship. What can management do to improve retail selling? One author suggested these steps some years ago:

(1) Place greater emphasis on self-service; (2) pay salespeople more and thus attract better qualified personnel who can be taught the principles of salesmanship; (3) adopt an "engineering approach" by rearranging department layouts and modifying equipment to increase sales worker efficiency; (4) develop and use a more effective program of training with emphasis on techniques of salesmanship; and (5) outline a program of careful on-the-floor supervision, the greatest single area for improving retail salesmanship.

Elements of a retail sale

The major elements in any retail sale are (1) the store and its policies, (2) the customer, (3) the merchandise, and (4) the salesperson.

The store and its policies and the customer. Policies of the store in which the sale takes place govern the selling methods pursued and the actions of salespeople. The customer is the very heart of the sale, a fact which Marshall Field recognized in his phrase, "Give the Lady What She Wants.”

The customer must be completely pleased with the reception offered by the store, the merchandise purchased, and the services rendered; otherwise the sale has not been successful. Salespeople should be guided by this understanding and sell from the customer's point of view. To do so, they should know something about consumer psychology and buying motives, have a thorough knowledge of the merchandise they are selling and of principles of salesmanship - how to bring customers and merchandise together effectively. They should also recognize the importance of getting along with people - their customers, associates, and supervisors. One word, courtesy, summarizes much of what is needed.

The merchandise. Success in selling is impossible without knowledge of the merchandise. The information needed will vary with the type of goods sold and the clientele served, but in all stores salespeople should be able to give a clear picture of the sizes, styles, qualities, and colors of the merchandise. Management should see that they know how to bring out points of superiority, such as durability, service, prestige, satisfaction, and comfort, and possess the facts pertinent to the uses and care of the goods. They should also be familiar with the offerings of competing stores.

SOURCES OF MERCHANDISE KNOWLEDGE. The knowledge of merchandise required for effective selling may be obtained in many ways: experience handling goods; asking others, including wholesale salespersons, the head of stock, and the buyer; learning from other salespeople and from customers; through manufacturers' representatives and printed material; trade journals, home and fashion magazines, advertisements, newspaper, and books; and also by reading information on tags and labels attached to the product.

The salesperson. Good appearance, the right attitude, and courteous treatment of the customer are fundamental to success in selling. The salesperson can easily nullify other forms of sales promotion by failing to demonstrate a sincere interest in determining and satisfactorily filling the customer's wants.

In general, the qualifications of a successful salesperson are much the same as those necessary for success in any line of business: hard work; confidence in oneself, one's company, and one's merchandise; courage to meet disappointment and defeat judgment; discrimination and good sense; creative imagination or the capacity to develop ideas; a talent for getting along with one's associates and superiors; and knowledge of the job to be done. If the salesperson also possesses or develops such qualities as a genuine interest in people, enthusiasm, the ability to instill confidence, and some flair for showmanship, chances for success are enhanced.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. The importance of personal salesmanship varies depending on the type of retail establishment.
2. There is a general agreement that personal selling will be unnecessary in the future.
3. It is generally agreed that the overall quality of personal salesmanship in retail stores leaves much to be desired.
4. A critical factor in salesperson’s performance is the degree of knowledge of the merchandise.

Answer

1. True. Some retail enterprises, such as self-service stores, properly discount the value of personal salesmanship while others, such as automobile dealers, regard it as being of critical importance.
2. False. Although there are some who hold this view, many believe there will always be a significant need for personal salesmanship.
3. True. The overall quality of the personal salesmanship of retail employees has been found to be rather mediocre.
4. True. A salesperson should be thoroughly familiar with all aspects of the merchandise.

The selling process

Once salespersons have an appreciation and understanding of the four major elements of a sale, they are in a position to proceed with the selling process. This process may be thought of as involving seven steps, as follows: (1) approach and greeting, (2) determining the customer's needs, (3) presenting the merchandise effectively, (4) meeting objections, (5) closing the sale, (6) suggestion selling of additional items, and (7) developing goodwill after the sale.

Approaching and greeting the customer. A proper approach to the customer is a matter of skill and judgment. It requires friendly interest and a sincere desire to be of service, balanced by proper reserve and self-confidence. The customer should be made to realize that the salesperson and the store appreciate the opportunity to be of service.

Determining the customer's needs. This task is easy for such staple items as groceries and toilet articles but more difficult for such items as women's ready-to-wear, gloves, and hosiery. Careful sizing up of the customer and a few well-phrased questions are very helpful in this connection. The customer's dress, speech, manner, and reaction to the merchandise first shown furnish valuable guides to the salesperson.

Presenting the merchandise effectively. Presenting merchandise to customers in a manner that will induce them to purchase involves the following: (1) knowledge of its location in the store or department, (2) wise selection of what is shown or demonstrated, (3) proper display of the merchandise, (4) careful selection of the chief selling points of the merchandise, and (5) effective presentation of these selling points.

Meeting objections. Meeting objections satisfactorily is probably the most difficult step in the selling process. Objections to purchase may be divided into two groups: (1) genuine objections, constituting honest and sincere reasons for failure to buy; and (2) mere excuses, usually designed to conceal the real reason for failure to take action. Genuine objections should be met squarely and without evasion. Excuses may often be ignored, although they may be recognized and answered by the salesperson.

SOME GENERAL RULES. Certain proven rules are helpful in meeting objections, as follows:

1. Never argue with a customer. An argument may be won, but a sale and a customer lost.
2. Learn to anticipate objections, and incorporate answers to them in the presentation.
3. Deal with objections fairly and completely, making sure not to belittle the customer's opinions.
4. Inspire confidence on the part of customers and contribute to their self-esteem by the tactful handling of their questions.
5. Avoid, if possible, mention of competitors and their merchandise. If the customer mentions them, speak well and briefly of them.

HANDLING THE PRICE QUESTION. Because of the many and varied wants of *all* people and the limited incomes of most people, the fundamental objection to purchase for nearly all people is price. "I cannot afford it" and "I like it very much, but the price is too high," are common customer expressions confronting salespeople.

In most cases, perhaps, price should not be mentioned until the suitability of the goods to the customers' needs has been demonstrated. Many customers, however, inquire about prices at the outset. In such instances, there should be no hesitation in stating prices but the values as these prices should be stressed immediately. It is often advisable to show higher priced merchandise of better quality to demonstrate the difference between the various items.

Closing the sales. If the transaction has been properly handled, closing the sale will come naturally and without particular notice by the customer. But many sales are not closed, and the best way to avoid such occurrences is for salespeople to analyze each sale they lose and determine the mistakes made in their presentations. Among the more common avoidable errors are the following:

1. Hurrying the customer to make a decision before being ready to buy.
2. Failing to assist the customer in making the decision, perhaps by indifference or caustic comments.
3. Not meeting objections squarely and confidently.
4. Stressing unimportant selling points as a result of poor preparation and failure to size up the customer properly.
5. Attempting to force action through high-pressure methods and because of irritation at the customer's delay in making a decision.
6. Acting discourteously when customers fail to purchase the merchandise shown.

Knowledge of the reasons why sales are lost, however, is not enough. The salesperson must translate this knowledge into improved salesmanship .

Suggestion selling. After closing their sales, salespeople can serve the customers, the store, and their own interest through suggestion selling, for example by:

1. Increasing the amount of the sales by suggesting better quality merchandise and pointing out the various advantages of buying the better item. However, this should not be done if it will damage the already-completed sale.
2. Increasing the amount of the sale by suggesting the larger sizes and explaining the saving they represent and by selling larger quantities or groups of the same item.
3. Suggesting related, associated, or companion items,
4. Suggesting seasonable, timely merchandise in demand by customers.
5. Suggesting special values or bargains being offered in the department or the store.
6. Suggesting new merchandise which has just arrived.

Developing goodwill after the sale. The selling process has not been completed when the customer makes a purchase. The goods must be wrapped for carrying or for delivery as promised and correctly billed if bought on credit. The customer should be satisfied with the merchandise and have a favorable impression of the store. A cheerful and sincere expression of gratitude will contribute to that impression. Even if no purchase is made, the customer should be thanked for being interested in the store.

Management's responsibility for personal salesmanship

It is the responsibility of management, through alert leadership and adequate supervision, to provide the direction and the type of selling atmosphere throughout the store which is conducive to effective selling. When this is done, customers will be pleased with the surroundings in which they shop; employees will be congenial in their relationships with each other and their supervisors, and happy with the conditions under which they work.

Management also has major responsibilities in the guidance, supervision, and energizing of the people who make up the sales force, including fair distribution of work among employees, assignment of definite responsibility to each worker, and even-tempered supervision involving interest in and encouragement of the sales force. It should recognize that the maintenance of high standards of salesmanship necessitates close and constant observation of the selling process carried on in the store; that it requires detailed study of performance records; and that it demands correction of sales methods as a result of such observation and study. When these responsibilities are met, personal selling efforts will be improved and profit possibilities enhanced.

Indicate whether each of the following statements is true or false by writing "T" or "F".

1. The selling process begins with the identification of the customer's needs.
2. A salesperson should always agree with a customer's objections.
3. Whenever a sale is lost due to the failure of the salesperson to close the sale, the salesperson should review the reason for the failure.
4. The degree and the nature of the supervision exercised over the sales staff is a key determinant of the success of the personal selling effort.

Answer

1. False. The selling begins process begins with approaching and greeting the customer. Identification of the customer's needs is the second step.
2. False. A salesperson should never argue with a customer, but any objection, which is based on partial, or erroneous information should be answered in a courteous manner.
3. True. The best way to avoid future losses of sales is to analyze the reasons that past sales were lost and make the appropriate corrections.
4. True. Adequate supervision of the store's salespeople facilitates the development of a productive sales staff. When this is done, customers will be pleased with the surroundings; employees will be congenial with each other and with their supervisors, and will be happier with their working conditions.

CHAPTER 18
CUSTOMER SERVICES

Learning Objectives:

After studying this chapter you will be able to:

1. Identify the number and variety of services available.
2. Establish alteration services for clothing sales.
3. Develop a delivery policy and procedure.
4. State how to handle customer complaints and adjustments.
5. Establish policies for return goods.
6. Identify other customer services.
7. Formulate income-producing services.

The retailer's most basic service is to offer proper assortments of merchandise at reasonable prices. But they must also furnish various types of other customer services. Often performed without charge, these services aid substantially in creating a store's image and in attracting customers. Sometimes fees will be charged to cover part of the cost of these services depending upon (1) competitive conditions, (2) customer expectations, and (3) the expense involved.

In addition to traditional services — delivery and credit, for instance — retailers now offer many income-producing services, such as renting tools and equipment to meet the changing demands of their customers. As a result, the term customer services needs broadening to include these newer types. Used in this sense, the term reflects the modern retailer's desire to furnish all the services customers expect under current conditions.

The number and variety of services

It is not possible here to discuss in detail each of the wide variety of free and income-producing customer services. The present chapter, therefore, is devoted to the more important ones except credit, plus a brief examination of five other customer services.

Traditional customer services include, among others, altering of men's and women's clothing, wrapping merchandise, making deliveries, handling complaints and making adjustments, accepting returns, and extending credit. Many retailers, however, are adding such income-producing services as the following: automobile rentals; automobile and tire services; health, accident, and hospitalization insurance; sports and theater tickets. This expansion will probably continue as management seeks additional profitable activities suited to the stores clientele and image.

Guides to offer services. Certain guides assist the retailer in establishing the policies, procedures, and conditions under which customer services will be offered. These include (1) the policies and practices of competitors; (2) the type of merchandise handled - furniture, for example, usually must be delivered; (3) the type of clientele served - its income, location, and buying habits; (4) the store's pricing policy — when bargains are featured, for example, services are restricted; and (5) the store's location — whether downtown or in a suburban area.

All retailers, however, should constantly bear in mind their major goal -- keeping customers satisfied - especially after a sale has been made or the merchandise has been rented.

Alterations

Alterations have become widely expected and without them consummation of many sales of clothing would be difficult. Originally offered free, a charge is now typically made for alterations on women's clothing; but none for adjustments on men's clothing except that sold during special sales events.

Wrapping merchandise. Three major types of wrapping systems are in common use - clerk wrap, department or floor wrap, and central wrap. Under the clerk-wrap system, the salesperson also does the wrapping. This system is usually preferred by the customer because the whole transaction is conducted with one person. The department or floor-wrap system makes use of a wrapping station where merchandise sold in one or more related or adjacent departments is wrapped by employees specializing in this service; while the central-wrap system localizes the wrapping service in one or a few places in the store, thereby achieving the advantages of greater specialization of labor. The latter system permits the use of wrapping machines that can wrap as much as 70 percent of all merchandise at substantial savings in both space and wages.

Gift wrapping. Although offered by many stores throughout the year, most gift wrapping is done in the pre-Christmas period. This service is fairly expensive. Jewelry boxes of good quality given free may cost as much as $5 each. Moreover, development of Christmas boxes is expensive. Yet, probably more than 50 percent of department and specialty stores provide free gift boxes and wrappings year-round for their customers, charging only for very elaborate wraps.

Prepacking. To assist the retailer with wrapping problems, some manufacturers place goods in packages containing the number of units usually purchased by the customer. This practice is referred to as "prepacking" or "pre-packaging."

Deliver service

Delivery service is probably rendered on one third of the goods sold at retail. Such service is usually provided for many “heavy”' or “hard” goods - including furniture, refrigerators, washing machines, and television sets. The growth of telephone and mail-order selling and the unwillingness of many people to cope with the traffic problem in metropolitan shopping areas has increased the number of deliveries. Delivery expense is quite costly and rising rapidly on a unit basis, largely because of increasing labor costs. Per-package cost for delivery now approximates 70 to 75 cents in the larger cities; and among department stores, delivery costs amount to about 0.5 percent of net sales. Yet, delivery service is usually offered without extra charge on purchases exceeding some modest minimum amount (e.g., $5).

Delivery systems. Retail delivery systems fall into a fivefold classification: (1) individual store system, (2) mutual system, (3) consolidated system, (4) express, and (5) parcel post.

The individual store system is one in which a store provides delivery service through its own personnel and equipment. It is the most flexible one of al1, since routes and delivery schedules can be arranged to meet the store's requirements.

Mutual or cooperative delivery systems involve setting up a delivery company, separate from the participating retail firms but owned by them. Expenses may be shared among the various stockholders according to some agreed upon basis. The delivery company picks up from each retailer all goods to be delivered, takes them to its own sorting station, sorts the merchandise, takes care of actual delivery, collects COD accounts, and returns goods that cannot be delivered.

Consolidated delivery systems operate like the mutual systems but are not owned by the stores they serve. Instead, they are owned and operated by people who provide delivery service on a fee basis. The United Parcel Service is an example of these systems.

The great bulk of deliveries is carried out by the three delivery systems mentioned. Express companies and parcel post service are used by many large stores, however, particularly for mail orders. Small stores with few packages to be delivered also find these methods useful.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. The current trend in retailing is to curtail the variety of services offered in an attempt to economize through cost reductions.
2. Alterations on women’s clothing are offered free more frequently than on men’s clothing.
3. Prepacking has eased the retailer’s problem of wrapping merchandise.
4. Despite the rising cost of transportation, the delivery service is usually a free service.

Answer

1. False. The current trend in retailing is to *expand* the variety of services offered in an attempt to more fully satisfy the customer's needs.
2. False. Such alterations are typically provided at a charge on women's clothing but free on men's clothing.
3. True. Manufacturers have relieved the retailer of some of the costs of wrapping merchandise through their prepackaging of goods.
4. True. Delivery service is usually performed on a no-charge basis on purchases exceeding some modest among (*e.g.* $5).

Customer complaints and adjustments

All retailers receive complaints from customers. Federal law requires retailers to notify customers of manufacturers' warranties and, in some instances, handle warranty complaints. By focusing attention on their fundamental causes, complaints can be minimized.

Major causes of complaints. In general, complaints may be traced to one or more of four factors: (1) improper buying, that is, the purchase of goods unsuited to customers' needs; (2) inefficient store system; (3) inadequately trained and careless personnel; and (4) habitual complainers, that is, those customers who complain despite everything that has been done to give satisfaction.

Maintaining goodwill. Successful retailers must develop a large repeat business; since this is not possible when customers have a just grievance, complaints should be handled by friendly personnel sympathetic to the customer's point of view. If the store is not willing to remedy customers' complaints, dollars spent to attract customers have been wasted.

In an effort to turn complaints into goodwill, many retailers have very liberal adjustment policies. Typical of these policies is that of Sears, Roebuck and Company: "Liberal and prompt adjustments to our customers, *even if we may think they are wrong,* are desirable as a matter of policy.... The Sears motto, *Satisfaction guaranteed or your money back, is* a real policy, to be faithfully observed." Other stores quickly make any adjustments called for by a failure on their part; but for other complaints they try to distinguish between (1) those made by customers having a legitimate complaint and (2) those that attempt to take advantage of the store's "the -customer-is-always-right" policy.

Procedures for handling complaints. Three systems are used in handling complaints: a centralized system, a decentralized system, or a combination of certain elements of both Under the centralized system, an adjustment department handles all complaints. This procedure has advantages both for the customer and for the store. For the customer (1) it permits the grievance to be handled by people trained for the task and (2) increases the opportunity for a settlement satisfactory to all. For the store, it permits the use of skilled adjusters who can handle difficult situations uniformly and build goodwill. Salespeople and buyers are relieved of the task, and it is easier to record and analyze complaints, thus providing data useful in reducing future ones.

Under a decentralized system, complaints are usually settled by the department head, or head salespeople, with handling of refusals reserved for executives. Two chief benefits accrue from this system. It is easier for the customer to bring a complaint to the attention of the salesperson in the department where the sale was made. On the sales floor, an adjustment through an exchange of merchandise may be facilitated, whereas in the adjustment department a cash refund is more likely to be requested. The limitations of this system are mainly the following three: salespeople and floor supervisors often lack training in handling complaints; it takes time from their other duties; and salespeople are less willing to admit errors than is an adjustment bureau.

When the two systems are combined, the decentralized plan is used for all complaints except (1) those that seem unreasonable to the department head and (2) those that involve a fairly substantial amount of money. The combination system enables the store to adjust the majority of complaints in a manner most satisfactory to the customer and provides a skilled group of adjusters for difficult cases.

Returned goods

Few customer services are more widely used, and none is more abused, than the privilege of returning merchandise. The problem is a continuing one caused by the frequency of returns, the quantities of goods returned, and the expense and managerial effort involved.

Responsibility for returns. *R*esponsibility for returns may be divided between the store and its customers.

STORE RESPONSIBILITY. Stores are probably responsible for the majority of returns as a result of the merchandise sold, the quality of service rendered customers, and store policies. Stocks may be incomplete, quality may be poor, designated size may be incorrect, and merchandise may be overpriced and inadequately described.

Illustrations of service returns are delayed deliveries, incorrect alterations, and goods damaged in delivery.

Returns caused by store policies are many. Sometimes salespeople oversell customers or suggest taking goods home on approval. Subsequent returns are inevitable. Easy credit policies encourage people to buy on credit, and returns are biggest from credit customers.

CUSTOMER RESPONSIBILITY. Some customers "buy" merchandise for special occasions and return it afterwards. Others change their minds as to price, color, quality, and style. Still others return goods purchased as gifts for others, a practice encouraged by some retailers who, in an effort to build goodwill, advertise that they welcome exchanges.

The cost of handling returns. These costs include the loss of sales while the merchandise is in the customer's hands; repairing damage to the goods; adjusting merchandise, cash, and customer records; re-marking and returning the items to stock; allowances to customers; and necessary markdowns on returned goods.

Minimizing returns of merchandise. Despite their high cost, retail returns are inevitable. The retailer's problem is how to minimize them and still keep customer goodwill. How can this be done? Two approaches have been used: first, action by the individual store, and second, cooperative action by a group of retailers.

THE INDIVIDUAL STORE APPROACH. Basically, the individual store's program to minimize returns should begin with the education of its own personnel. This program should set forth the steps necessary to reduce the internal causes of returns; the consuming public should then be told why these steps have been taken. If analysis reveals that returns are caused by merchandise defects and overpricing. the store should strive to improve its buying and selling. If unsatisfactory service causes returns, then steps should be taken to improve the service. Employees should be kept "return-conscious."

THE GROUP APPROACH. Group action by retailers within a given shopping area often produces good results. The group can afford to do many things the individual store cannot do. Group action has the major advantages of making it easier (1) to establish a sound educational program on the costliness of returns; (2) to press collectively for sanitary laws effecting returns of certain merchandise and (3) to establish group rules uniformly limiting the return privilege, but this may contravene the antitrust laws.

Two limitations of group action in reducing returns, however, should be recognized. First, it is often difficult to reach an agreement on policies to be adopted. Second, there is danger that suspicion will arise regarding the degree of compliance of the cooperating stores with the stated policies. Without general compliance with the policies agreed upon, group action will be ineffective in reducing returns.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. A hallmark of an effective system for handling customer complaints is that the customer’s goodwill is maintained.
2. Customers are more likely to prefer a centralized system for handling complaints as opposed to the decentralized system.
3. The causes of the returns of most goods can be traced to errors on the part of the retailer.
4. A retailer’s policy regarding returns usually is affected by the prevailing policies of other retailers located in the same sales area.

Answer

1. True. Complaints should be handled in such a way as to placate the customer and ensure continued goodwill.
2. False. The decentralized system is much more convenient for customers who naturally return to the department where they purchased the goods. However, customers may receive settlements, which are more to their liking under a centralized system and it permits their grievances to be handled by people trained for the task.

3. True. Stores probably are responsible for the majority of returns. Returns result from incorrect or inadequate merchandise, poor quality of services such as delivery and alterations, and stores policies (such as "take it home on approval" and easy credit).
4. True. A retailer's return policy typically is formulated to conform to the prevailing return policies of other members of the trade within that shopping area.

Some other customer services

Customer services other than those discussed are furnished by retailers to attract and hold customers.

Repair services. Customers usually expect automobile, appliance, and other retailers to provide, or arrange for, free repair service during the warranty period. Subsequent repair service may be profitable for the merchant. Providing competent service is difficult, however; and great care should be exercised to assure customer satisfaction.

Store hour . Although additional store hours involve extra operating expenses, most suburban, shopping center, and neighborhood retailers are now increasingly open one to six evenings per week and many also open on Sundays. This permits catering to consumers who want to shop after work.

Personal shopping. Many large department stores employ personal shoppers to select merchandise for customers who request such assistance either by mail or telephone or when visiting the store (in the latter case the salespeople are called *escort shoppers).* Interior designers and decorators provide expert advice on home furnishings. Sometimes a fee is charged for the designer's services, usually to be credited against the purchase amount.

Providing merchandise information. With customers demanding more and better information concerning merchandise than ever before and government agencies supporting such demands, retailers are providing improved data. Some have their own testing bureaus, while others use commercial testing firms. Still others rely on their sources of supply for detailed information on such factors as fastness of color, shrinkage, and washability.

Accepting COD orders. Some merchandise is sold on a COD basis as a convenience for the customer who places an order by mail or telephone and who does not have a charge account. Besides the expense of handling them, CODs also result in a high percentage of returns - almost double that of cash and charge sales - and as a result, some stores now refuse to accept them unless a down payment is made.

Check cashing, parking, and other services. Other services that stores offer to attract customers include check cashing (supermarkets cash more payroll checks than do banks), parking facilities, branch post offices, lost and found departments, theater ticket bureaus, and many other services.

Income-producing services

Retailers increasingly seek profits from income-producing services such as beauty parlors, insurance sales, party catering, home remodeling, and film processing. Both repair services (already discussed) and restaurants may be conducted as profit centers.

Merchandise rentals. Retailers offer rentals for five reasons: (1) high profit potential, (2) absence of strong competition, (3) opportunities to sell new and used tools to rental customers, (4) the sales of related items, and (5) additional customer traffic attracted by the rental department. However, the retailer should consider the following: (1) the inventory investment required; (2) the difficult display problems involved; (3) the setting of equitable rental rates; (4) the need for adequate liability insurance coverage; and (5) establishment of proper controls over the issuance, care, and return of the rented items.

***Public service activities*.** These activities are engaged in by an increasing number of retailers and reflect the growing social consciousness that has developed during the past decade or so in this country.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. Stores typically are staying open a fewer number of hours each week now than ten years ago.
2. Stores are tightening controls on COD sales because of their low markup.
3. Merchandise rentals, such as renting carpet cleaning equipment and tillers (for gardening), are becoming common.
4. Retailers are now engaging in activities that effect their growing social consciousness.

Answer

1. False. Retail stores are increasingly open one to six evenings per week and many are also open on Sundays.
2. False. Stores are tightening controls of COD sales because of the high percentage of returns on these transactions. The return rate is almost double that on cash and charge sales.
3. True. These rentals are common and often provide high profit potential as well as other advantages.
4. True. Many retailers are assuming a more active role in supporting community services and are thereby becoming "involved" in the social problems of our time.

CHAPTER 19
RETAIL CREDIT COLLECTION

Learning Objectives:

After studying this chapter you will be able to:

1. Establish a variety of types of retail credit.
2. Explain the importance of credit sales to the retailer.
3. Identify the problems of selling on credit.
4. Establish credit accounting procedures.
5. Maintain current credit information.
6. Identify credit customers.
7. Determine outside financial institutions that can facilitate credit sales.
8. Implement collection procedures for past-due accounts.
9. Comply with credit legislation.
10. Evaluate the effectiveness of the credit department.

Types of retail credit

Retail credit, also known as consumer credit, may be defined as present purchasing power based upon the confidence of the seller in the buyer's ability to pay bills as they mature. For many years, two forms were common, open account credit and installment credit. Recently, however, other forms, such as revolving credit, option-terms credit, and variations in the two basic types, have come into use.

Open account credit. Goods and services sold on regular or open account credit are given to the buyer before any payment is made and without pledging purchases or other assets as collateral. Payment is expected within 30 days after receipt of the bill. No charge is made for this privilege, but a service charge may be added on past-due accounts.

Open account credit is usually extended on the basis of a person's character, capacity, and capital. By character is meant willingness to pay obligations, capacity refers to ability to pay out of current income, and capital refers to financial resources or assets.

Installment credit. This type of credit may be distinguished from open account credit by the following: (1) a down payment is made upon purchase; (2) additional payments are made on dates specifically set at the time of purchase; (3) some security is usually required (typically, the goods purchased); (4) a separate charge is made for the credit extended; and (5) a written contract is used. In practice, there are exceptions to all these statements. The basic difference between open account and installment credit is that the latter requires a series of payments on definitely set dates. Installment types of credit should be granted with the same care as open account since these types are increasingly applied to sales of services and soft goods that cannot be used as security and since repossession has become much more difficult under modern legislation.

Revolving credit. Under this plan the customer agrees to pay a fixed monthly installment to the store whenever there is a balance due. The store then establishes a "line of credit" or limit which may be used to buy general merchandise. Additional goods may be purchased whenever payments have reduced the debt below the credit limit. A service charge is placed on the unpaid balance.

The "option-terms" plan. A modification of revolving credit, this plan provides the option of paying any balance in full or of dividing it into (usually ten) installments. A service charge of 1 ½ percent or 1 percent is imposed on installment payments. Many consumers and credit managers consider this the "ideal" credit plan.

Several other credit plans are also in use, but their importance does not warrant consideration here.

Importance of credit sales to the retailer

The importance of credit sales to the retailer is evidenced by three major factors: (1) the increasing volume of such sales, (2) the effectiveness of credit as a producer of sales, and (3) the usefulness of credit as a competitive weapon.

Volume of consumer credit. Reliable figures on total consumer credit are not available. Perhaps one third of all retail sales volume is done on credit.

Retail credit increases sales. Retailers find that credit builds business because customers usually expect and often demand the service, it affords a valuable contact with customers, aids in building a mailing list, and serves as a valuable sales agency.

Customers like credit because it makes their buying more pleasant. It is unnecessary to carry much money on shopping trips, and permits greater buying freedom. Many people find it necessary to buy on credit between the dates on which their income is received, and it enables them to buy and enjoy merchandise which would be impossible to obtain at that time without the privilege.

Customers with credit accounts are likely to be more steady customers and to buy a greater proportion of their needs from one source than the cash customer. This statement is difficult to prove, but many retailers are convinced it is true. One major mail-order company found that its average credit customer bought twice as much as the typical cash customer.

Credit produces sales by providing a selected mailing list, a useful tool for promotional purposes. And the credit department itself is a valuable sales agency. The credit department may be marketed just as effectively perhaps as the retailer's merchandise and other services.

Competitive pressure to extend retail credit. The importance of credit sales as a competitive weapon is evident. Since customers expect credit accommodation in certain fields, competition practically forces the retailer to extend this service or retire from business. Some well-known stores, for example, J. C. Penney Company, once famous for their cash-and-carry policies, have turned to credit selling.

Indicate whether each of the following statements is true or false by writing "T" or "F".

1. A purchase on open account credit normally is settled by the payment of the amount of the purchase plus a service charge.
2. The three "c"s of granting credit are charge accounts, Christianity, and charisma.
3. Under a revolving credit plan, the customer is limited by the retailer as to the amount he or she can owe at any one time.
4. About 80 percent of all retail sales are credit sales.
5. In certain fields of retailing, a firm is almost bound to extent credit terms due to the competitive pressure.

Answer

1. False. Open account credit normally does not involve the incurrence of any interest or service charge, although most firms now add a service charge on past-due accounts.
2. False. The three "c" of granting credit are character (willingness to pay obligations), capacity (ability to pay out of current income), and capital (financial resources or assets).
3. True. Under a revolving credit plan the retailer sets a credit limit for the customer.
4. False. About one third of all retail sales are credit sales.
5. True. For example, in department stores and specialty stores over 80 percent of total sales are made on credit.

Problems of selling on credit

Three major problems, among others, arise in selling on credit: (1) the costs connected therewith, (2) the influence of credit extension on prices and profits, and (3) the management problems involved.

Credit costs. Credit costs consist mainly of the pay of the personnel involved, losses from bad debts, and the interest cost on the funds tied up. Variations exist among different types of stores and among stores with different annual sales. An indication of the interest cost on funds is afforded by the fact that some retailers carry accounts two or three times the value of their inventories.

Costs of installment credit as well as bad-debt losses are larger than those for open account credit. Moreover, tracing goods to be repossessed involves considerable expense, and the payment period is longer for installment sales, also causing additional expense.

Impact on prices and profits. Since additional costs are incurred in selling on credit, it would seem that larger markups are required to cover them. This is not necessarily true, but it is a factor to be considered when credit is extended. Credit extension may also cause the cost-to-sales ratio to rise somewhat so that if prices are not raised, the profit ratio will fall. But it is possible that the smaller net profit, when multiplied by the new total sales figure, may yield a larger aggregate profit than that previously secured. Despite these possibilities, credit selling is probably accompanied by somewhat higher cost ratios, higher prices, greater sales, smaller net profit margins, and larger total dollar profits.

Credit management problems. Selling on credit requires that accounts be solicited, standards established, and procedures adopted for properly handling them and making collections. It also involves management problems of providing additional working capital, conforming to government regulations, and deciding on the automation of credit operations.

PROMOTING CREDT ACCOUNTS. Since the cost of placing a new charge account on the store's books is returned several times in profit, retailers employ a variety of means to promote credit accounts.

CREDIT STANDARDS. Setting sound credit standards results in a dilemma. Low credit standards may result in greater sales than more conservative ones, but they entail greater debt losses, heavier collection expenses, and more personnel. High credit standards reduce these costs, but they check the expansion of sales. Striking a balance that will maximize the store's net profits is the job of the credit manager.

CREDIT COUNSELLING SERVICE. Desiring to improve consumers' knowledge of credit availability and the obligations it involves, as well as to reduce the growing number of personal bankruptcies, major retailers are joining with banks, finance companies, and chambers of commerce to provide comprehensive educational programs through free credit counseling service bureaus. These bureaus furnish valuable guidance to consumers on the economics of credit and in arranging prorating plans for the orderly settlement of debts.

LEGISLATION. The enactment of such federal laws as the "Truth-in-Lending," Fair Credit Reporting, Equal Credit Opportunity, and Fair Credit Billing statutes has created new problems for credit managers.

AUTOMATING THE CREDIT FUNCTION. Practically all large retailers and many small- and medium-sized ones have computerized their credit accounts. Phone checks & online bill pay are common nowadays.

Credit account procedure

Broadly speaking, systemized routines are necessary for opening accounts, maintaining credit information, identifying customers for whom accounts have been opened, authorizing purchases on credit, billing customers for purchases made, and collecting past-due accounts.

Information needed by a retailer before opening a charge account may be secured with the customer's cooperation or without. The former method is used when people ask for a charge account; the latter is used when a store, in its first contact with customers, notifies them that accounts have been set up in their names.

Opening an account with the customer's aid. Five steps are common when an account is opened in this manner- an interview, obtaining outside information, approving the credit application, establishing the credit limit, and informing the customer.

The interview with the customer is conducted by credit department personnel .Through questions and a credit application, the necessary information is secured regarding qualifications.

For outside information the local retail credit bureau, where one exists, is probably the retailer's best source. These bureaus are usually owned by the stores that use and operate them on a non-profit basis, each store furnishing the bureau with data on its credit customers, including amount of credit extended and promptness of payments. When a member requests a report on a person, complete data are given, but the sources are not disclosed.

On the basis of the interview and outside information, a decision is made whether to grant credit to the applicant. Since the majority of applicants meet the store's requirements, this decision is easy. When the credit application is approved, a credit limit is established. This limit is not a hard-and-fast figure not to be exceeded. It is a control, and if a customer reaches this limit, the situation is reviewed.

When credit applications are refused, efforts should be made to avoid antagonizing the applicant. Letters are useful in this connection since they avoid arguments. Even if the application is approved, a letter is a good way to inform the customer. It saves time for both parties and permits providing customers with a written set of credit rules.

Opening an account without the customer's aid. Based on the information obtained from a variety of outside sources, many stores formerly included credit cards or credit plates in promotional material sent to invited customers. This practice caused considerable resentment. Government regulations now prohibit mailing of unsolicited credit cards.

Indicate whether each of the following statements is true or false by writing "T" or "F".

1. Bad-debt losses are greater for open accounts than for installment credit.
2. The prime function of a credit department is to minimize bad-debt losses.
3. EDP is currently being employed in the management of the accounts receivable of only large-scale firms.
4. It is illegal to open an account for, and send a credit card to, an individual without an individual soliciting that account.

Answer

1. False. As the credit period lengthens, the incidence of credit losses increases.
2. False. The prime function of the credit department is to maximize profit from credit sales.
3. False. Large firms using EDP for management of accounts receivable, but many medium and small firms also use EDP to manage their credit accounts.
4. True. Governmental regulations now prohibit the mailing of unsolicited credit cards to potential customers. However unsolicited accounts may be opened if credit cards are not distributed.

Maintaining current credit information. Since a person's credit standing may frequently change, retailers must take steps to keep their information on credit customers up to date. One valuable source of information is the store's records. If accounts are given periodic study, those that are slow-pay can be discovered. Some stores subscribe to the annual rating books of local private credit bureaus to note changes in the ratings of their customers.

Identifying credit customers. When accounts are opened, some means must be provided to identify the charge customer. Having customers carry identification cards has one serious disadvantage. That is, many customers do not carry them all the time.

Another identification plan involves signature identification. Under this plan the customer signs the sales slip which is sent to the credit office for approval.

Billing the customer. This is the final step in most credit sales. Previously done at the end of each month, today an increasing number of large stores use "cycle billing." This form of billing refers to the practice under which names in the credit files are systematically divided and statements are sent to a different group on a fixed billing date within the month.

Some retailers have also adopted "country club" billing. Under this system no ledger entries are made; instead, the sales slips are filed and, on statement day, are sent to the customer with a statement showing merely the total amount of the slips enclosed. Prior to mailing, the store makes a photographic copy of the sales slips for its records to which is added a copy of the statement sent to the customer.

Most large stores have shifted to descriptive billing because of using electronic data processing equipment to handle their accounts' receivable. When this method is employed, sales slips are not sent to customers; instead they are filed by the store and referred to only when a customer questions a particular charge. The machine-produced statement sent to the customer may show (l) the previous balance, (2) a dollar figure and some identification for each item purchased, (3) total purchases and credits, (4) service charges, (5) amount currently due and (6) the due date.

Banks, finance companies, and credit card companies

Outside financial institutions facilitate credit sales in three ways: (1) Consumer use much of the money they borrow from these organizations for purchase of durable goods such as automobiles, (2) retailers frequently sell their installment account receivables to financial institutions at a discount in order to obtain cash, and (3) credit plans operated by banks and credit card companies continue to account for a large share of all credit sales.

Credit cards

BANK CREDIT CARD PLANS. These plans essentially operate as follows: Several retailers in a community agree to let a bank serve them collectively as a credit department. Customers may apply for credit either at the bank or at one of the cooperating stores. The bank, however, passes on the merits of the application. Once approved, the customer gets a credit card which is valid at any of the participating firms. No special authorization is required by the store on small purchases, but the bank may be called when significant amounts are involved. Sales checks are forwarded to the bank, where the total amount less a charge which is usually 4 to 6 percent, depending on store volume - is entered to the retailer's account. Collections are handled by the bank, usually without recourse to the merchant, with customers having the option of paying their bills in full monthly or shifting into a revolving-credit plan.

Bank card plans have grown tremendously in recent years. Most of these banks are members of either the Interbank (Master Charge) or the Bank Americard (Visa) system. Both of these organizations are continuing to grow.

TRAVEL AND ENTERTAINMENT CREDIT CARD COMPANIES. Travel and entertainment cards, such as American Express and Diners Club which involve a membership fee were designed to provide credit privileges in hotels and restaurants around the world. Today some large stores accept both travel and bank cards in addition to their own. And, increasingly, credit cards issued by major oil companies are also being used for the purchase of merchandise.

BENEFITS AND LIMITATIONS. The credit card plans mentioned are especially advantageous to small retailers. All details of investigation when opening an account, the subsequent maintenance of up-to-date information and of accounting records, making collections, and the credit risk are carried by others. Their major limitations are in the stores loss of personal hold on the customer, the charge for the credit service, and the losses that result for the fraudulent use of credit cards.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. The main purpose of “cycle billing” is to enable the retailer to collect accounts sooner than would otherwise be possible.
2. Where an outside agency, for example, a commercial bank, has taken over as the provider of credit to the retailer’s customers, the retailer no longer passes on the credit standing of the customer.
3. Only banks may issue credit cards.
4. Most companies that rely on a bank or independent retail credit plan avoid bad-debt losses.

Answer

1. False. "Cycle billing" levels out the workload of sending monthly statements; collections are not necessarily made sooner than otherwise.
2. True. Where an outside agency is used to grant credit, that agency passes on the merits of granting credit to a specific customer.
3. False. Credit card companies and major oil companies also issue credit cards.
4. True. Under bank and independents retail credit plans, the grantor of credit usually has no claim against the retailer for any bad debts arising from sales made by the retailer.

Collection of past-due accounts

The collection function. This function includes more than obtaining cash from the negligent credit buyer. It begins with the making out of sales checks which record the amount due the store, proceeds through records of the customer's debits and credits, and includes all measures associated directly with collecting cash from the customer. Performance of these activities requires sound policies and procedures.

THE COLLECTION PROBLEM AND CREDIT POLICIES. The difficulty of collecting overdue accounts is directly related to the credit policies of the store, and to a lesser degree by those of other stores. If one store is more strict in its collection program than other stores, customers will be driven to competitors.

ADVANTAGES OF EARLY COLLECTIONS. Prompt follow-up on past-due accounts saves interest charges on funds tied up in accounts, reduces payroll expenses necessary to make out collection notices, and lowers the cost of stationery and postage. Early collections also lead to increased sales because customers often refrain from visiting a store when their accounts are overdue.

Collection policies. Retailers differ in their collection policies. Once such a policy has been formulated, however, it may be classified either as a uniform policy, that is, one applied uniformly to all customers, or as a nonuniform policy, that is, one that treats customers differently according to their past records and the facts of the present situation.

UNIFORM COLLECTION POLICY. It is difficult to generalize about uniform collection policies, but the usual steps are as follows: Once a month each open account debtor is sent a statement of obligations with a request for payment within thirty days. (Buyers with installment contracts know the payment dates and the sum due so this billing is unnecessary.) If payment is not made and no explanation is received, a second statement is mailed often referring to the interest charge on past-due accounts. If the customer still fails to respond, a letter requesting prompt action may be sent. If this fails to secure a response, more pressure seems advisable and demanding letters may be sent. Transfer of the account to a service-charge basis may be suggested, a threat to report the past-due account to the local credit bureau mentioned, or even the possibility of instituting legal proceedings stressed.

The preceding steps will collect most accounts. If they do not, a personal collector, employed on a part-time or a full-time basis, is the next step. Sometimes noncompeting stores cooperate and employ a full-time collector. If personal collection fails, legal action is the final step, unless a collection agency is hired.

NONUNIFORM COLLECTION POLICY. Some retailers believe that treating all nonpaying customers alike results in the loss of considerable goodwill. Although they may eventually go through steps similar to those described, they prefer to divide their negligent customers into groups, each made up of fairly comparable accounts. For example, some customers pay their bills on time and may be classified as “prompt-pay” customers. Another group, classified as “sure pay,” but slow," may consist of several sub-groups: (1) those customers who neglect their bill, (2) those individuals who pay only when pressure is exerted, and (3) those people who resent the treatment they have received.

These groupings reveal that there is no standard collection problem. A large store cannot treat each account individually, but it can classify accounts and submit comparable ones to similar collection methods. Once customers have been grouped according to their similarities, however, the store should have a definite collection routine which operates automatically. Persistence and promptness are great virtues in a sound collection system.

Credit legislation

State laws frequently affect maximum credit charges, installment sales procedures, personal bankruptcies, collection methods, and other aspects of credit selling. In addition, several important federal statutes which can only be briefly mentioned here are applicable.

The Consumer Credit Protection ("Truth-In-Lending") Act. Among other provisions, this law stipulates information that the consumer must receive about credit terms and service charges. The most controversial requirement is that credit charges must be stated in both dollars and as an annual percentage rate. Thus a service charge of 1.5 percent per month on the unpaid balance must be quoted as an annual 18 percent rate. Retailers object because this quotation does not reflect the period of free credit under option terms and because the balances paid in less than a year do not actually cost the customer 18 %.

The "Fair Credit Reporting" Act. This law gives consumers the right to inspect their credit bureau files and to object to any statements they consider inaccurate. It also limits the detrimental information the bureau can retain, requires rechecking of other information, and provides for notification of the consumer under certain circumstances before inquiries are made among friends and neighbors.

Equal Credit Opportunity Act. In order to assure women equal access to credit, this law prohibits seeking or using information about such matters as marital status or child-bearing intentions in granting credit when a woman wants an account on her own behalf. Information about joint (husband and wife) accounts must be reported under both names to credit bureaus so that the wife will have a credit history of her own if she becomes widowed or divorced.

The Fair Credit Billing Act. Procedures for investigating and adjusting customer complaints about incorrect billing are specified in this law. Other provisions concern billing and crediting dates, information that must appear on the bill, and related matters.

Judging the efficiency of the credit department

Among the yardsticks available for judging the effectiveness of the credit department are the following: (1) the number of new accounts opened in a given period; (2) the number of credit applications refused; (3) the number of delinquent accounts; (4) the overall services rendered as measured by complaints received and the time required to authorize credit purchases; (5) the percentage of delinquent accounts collected; (6) the losses from bad debts; (7) the cost of operating the credit department; and (8) the department's knowledge of, and full compliance with, the relevant laws and government regulations.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. The collection function is concerned solely with collecting cash from negligent credit buyers.
2. The main disadvantage of a nonuniform collection policy is the extra cost involved in the detailed analysis of the accounts.
3. Under “Truth-in-lending” legislation only the dollars of interest charges must be stated to the customer.
4. Consumers have the right to inspect their credit bureau files.

Answer

1. False. It also includes the process of making out the sales checks, records of purchases and payments, and all measures associated directly with collecting cash from the customer.
2. True. A nonuniform collection policy requires more work to administer than does a uniform collection policy, and, therefore, it is more costly that the latter.
3. False. The annual percentage rate of interest must also be given.
4. True. The “Fair Credit Reporting Act” of 1971 gave customers the right to inspect their credit bureau files and to object to any statements they consider to be inaccurate.

CHAPTER 20
BASIC ACCOUNTING CONTROLS

Learning Objectives:

After studying this chapter you will be able to:

1. Explain the essentiality of accounting records.
2. Examine and explain the balance sheet.
3. Explain the operating statement under the cost method.
4. List the advantages and disadvantages of the retail method.

It is impossible to determine the results of retail operations without complete, accurate records of merchandise transactions, including purchases and sales, and of the expenses associated with the performance of these and related activities. In this chapter we will examine the two most important financial statements: *the balance sheet* which shows the retailer's net worth as of a particular point in time, and the *operating statement* (also called the profit and loss statement or the income statement) which shows earnings over a *period* of time. We will consider two ways of preparing the latter statement: the *cost method* and the *retail method.* Expense analysis is discussed in the next chapter.

Essentiality of accounting records

A retailer's accounting system should provide the facts required to judge the effectiveness of financial activities and to make logical decisions about future courses of action. Sound management decisions are impossible without pertinent information on current activities and its careful interpretation. More specifically accounting records serve six main purposes as follows:

1. To determine financial results of past operations.
2. To provide information for appraising current results and making future plans.
3. To furnish information upon which credit lines may be established with financial institutions and vendors.
4. To safeguard company assets through summarized statements and reports at frequent intervals.
5. To meet governmental regulations, local, state and federal. Frequent changes and growing complexity in tax and other regulations have made accurate accounting records more important today than ever before.
6. To facilitate comparisons with standard figures and/or to exchange comparable information with other stores (see Chapter 24).

Daily record. A basic principle of retail accounting is to record each day's transactions as they occur or to summarize them at the close of the day. Simple forms for small retailers that summarize daily cash and credit sales, merchandise receipts and expenditures, and operating expenses can be obtained from trade associations, commercial stationers, or the firm's accountant.

The balance sheet

Retailers determine their financial position from data supplied by the balance sheet. The distribution of the amount invested in the business among such items as cash resources, accounts receivable, merchandise inventories, and fixtures and equipment are known as assets. Indebtedness-the nature and amount of claims against assets-are liabilities. Net worth-the amount by which total assets exceed total liabilities-is especially important, as are the changes in the nature and amount of the assets and liabilities during a period. The simplified balance sheet of Table 1 shows some of elements.

Adjustments. Note that in accordance with accounting principles, adjustments were made to three of the assets shown in Table 1. The total accounts receivable from customers was reduced by a figure called an allowance for the anticipated loss of bad debts. Accumulated depreciation was deducted from the original cost of buildings, fixtures, and *durable* equipment to show their remaining book value. Finally the closing inventory was valued at "cost or replacement, whichever is lower," to avoid claiming resale margins that might not be obtained.

TABLE 1
BALANCE SHEET
DECEMBER 31, 20A

Assets	
Cash	$ 5,000
Customers' accounts receivable (less allowance for bad debts)	4,000
Inventory (at actual or current cost, whichever is lower)	19,250
Fixtures and equipment (after accumulated depreciation)	7,800
	$36,050
Liabilities and Net Worth	
Accounts payable	$13,500
Loan from bank	3,000
Owner's net worth	19,550
	$36,050

The operating statement under the cost method

Most retailers-practically all small ones-use the cost method of accounting. The term “cost method” herein refers to the use of a periodic inventory procedure as described in Chapter 14. This method requires recording the cost of all items entering the store, usually marking the unit cost code and the retail price on each item, and taking the physical inventory on a cost basis with adjustments to make it conform to the axiom "cost or market, whichever is lower.”

The operating or income statement. This statement is a summary of the results of operations carried on during a specific period of time. It shows the relationship for the period among sales, cost of goods sold, and expenses, and indicates the amount of the resulting profit or loss. This relationship, shown in Table 2, is as follows: Gross sales minus sales returns and allowances equals net sales; net sales minus cost of goods sold equals gross margin; and gross margin minus operating expenses equals net profit before income taxes.

Opening inventory at cost, January 1, ...	$22,500
Purchases at cost (less discounts)	60,000
Freight and express	950
Total cost of goods handled	$83,450
Closing inventory at cost, December 31, .	18,450
Cost of goods sold	$65,000

NET SALES. Gross sales is the total of all the prices initially charged the customers on goods sold, whether sales are for cash or on some form of credit. But customers return some merchandise, and this must be deducted from gross sales to indicate net sales. Moreover customers sometimes find defects in the goods after purchase for which they receive a cash allowance or partial refund which is also deducted from gross sales. Note, however, that markdowns do not effect the relationship between gross and net sales since they reduce prices before any sale takes place. Thus if the purchaser discovered a spot in a $175 coat after taking it from the store and received a $15 allowance for cleaning, gross sales were $175 and net sales, $160. If the defect was discovered and the price reduced before sales, both gross and net sales would have been $160.

COST OF GOODS SOLD. The $65,000 cost of goods sold figure in Table 2 represents what the retailer paid for merchandise sold during the period covered and was determined as followed:

TABLE 2
OPERATING STATEMENT
JANUARY—DECEMBER 31, 20A
(COST METHOD)

	Dollars	*Percent of net sales*
Gross sales	$110,000	
Less: Returns and allowances	10,000	
Net sales	$100,000	100.0
Cost of goods sold	65,000	65.0
Gross margin	$ 35,000	35.0
Operating expenses	30,000	30.0
Net profit before income taxes	$ 5,000	5.0

The retailer does *not* value the stock at the total of all cost figures but adjusts cost figures so they reflect the current situation. In brief, the merchant applies the following rule: Stock should be valued at actual cost or current replacement cost (within certain limits), whichever is lower-a rule which is usually shortened to "cost or market, whichever is lower." Both the opening and closing inventory figures in the illustration are shown as they would be after this adjustment.

OPERATING EXPENSES. Chapter 21, *Analyzing and Controlling Expenses*, deals with the elements included in the "operating expenses" item of Table 2. At this point it is sufficient to note that it includes all the costs of running the store, including payroll, rent, advertising, insurance, supplies, and taxes (other than income taxes). When these expenses are deducted from gross margin, the balance is the store's net profit before income taxes.

Preliminary evaluation of cost method. The merits and limitations of the cost method will be more evident following the discussion of the retail inventory method, but a few words may be added here. Relative simplicity of records and ease of understanding are evident in the cost method. However, since profits cannot be computed without taking a physical inventory, and since most retailers find it too time consuming to "cost their stock" more than once or twice a year, the cost method does not provide a profit figure as often as desired. Moreover, it does not give the retailer data on stock shortages. Yet the great majority of retailers find the cost method of computing profits meets their needs satisfactorily. (The cost method under *perpetual* procedure would meet both of these needs, but it involves detailed record keeping that is too costly to accumulate for goods other than those of high value over which close control is desired.)

Indicate whether each of the following statements is true or false by writing "T" or "F".

1. Net sales are equal to gross sales less credit sales.
2. The overstatement of a period's ending inventory will result in an overstatement of that period's net profit.
3. Under the cost method of accounting, the minimum valuation assigned to an inventory is its cost of purchase.
4. The cost method of accounting is peculiar to accounting for retail enterprises.

Answer

1. False. Gross sales are equal to cash sales plus credit sales. Net sales are equal to gross sales less sales discounts, sales returns, and sales allowances.
2. True. An overstatement of ending inventory results in an understatement of cost of goods sold which results in the overstatement of both the gross margin and the net profit of the period.
3. False. Under the cost method of accounting, the *maximum* value assigned to an inventory is its cost of purchase. It generally is valued at actual cost or current replacement cost (within certain limits), whichever is *lower*.
4. False. The cost method of accounting is employed in accounting for all types of commercial and industrial enterprises.

The cost method and large retailers. The previous discussion has been deliberately over-simplified to emphasize the viewpoint of the small retailer. Larger retailers operating under the cost method must maintain more detailed records. To illustrate: their records usually are designed to provide operating statement data of the type described for each department, and gross margin figures are estimated monthly. Physical inventories are not taken at such frequent intervals, and book inventory figures are determined from the estimated gross margin. Balance sheets generally are prepared for the company as a whole rather than for each department.

To secure current information not available under the cost method and to obtain closer estimates of the gross margin realized without the necessity of taking a physical inventory, almost all large stores and many medium-sized ones use the retail inventory method of accounting.

Retail method: Basic principles

The retail inventory method derives its name from the fact that its procedures rely heavily on records at retail (rather than cost) prices. The exact number of stores now using this method of accounting is not known, but it clearly dominates the department and departmentalizes specialty store fields. Furniture stores, men's clothing stores, jewelry stores, and chain food stores also frequently use it or modifications of it.

Fundamentals of the retail inventory method. The essential ingredient of this method of accounting is that it provides a procedure for reasonably estimating at any desired time the cost of a closing inventory that is stated at retail value. This cost value can be computed regardless of whether the inventory figure is obtained by taking a physical inventory at retail prices or by using the book record of the retail inventory. Actually, one of its major advantages is that it can be used with the book record of inventory to determine operating results more often than is possible when a physical inventory is required. Physical inventories are taken once or twice a year mainly to check the accuracy of the book inventory.

The retail inventory method requires the recording of both inventory and purchase figures at retail and at cost. Any additional markups are included in the retail figure. Physical inventories are taken at retail prices, and it is not necessary to place cost information on the tickets attached to the merchandise.

Use of the book inventory to determine the cost value of the closing inventory is exemplified as follows:

	Cost	*Retail*
Opening inventory	$ 41,000	$ 65,000
Purchases	128,000	183,000
Total merchandise handled	$169,000	$248,000
Sales (from records)		$150,000
Markdowns (from records)		12,000
Shortages (estimated)		8,000
Total merchandise deductions ...		$170,000

Since we do not have a physical inventory figure at retail, we must calculate one. This is done by subtracting from the total merchandise handled at retail everything which has decreased the value of this merchandise during the period covered - sales, markdowns, and shortages. Assuming these items amount to $170,000 ($150,000 + $12,000 + $8,000), we deduct this figure from the retail value of all merchandise handled ($248,000) and obtain a book inventory figure of $78,000 at retail.

The retail method rests upon the assumption (acceptable to the courts, Internal Revenue Service, and the accounting authorities) that the cost-to-retail value relationship in the closing inventory is the same as in total merchandise handled Consequently we first calculate a cost percentage for total merchandise handled. Dividing $169,000 by $248,000 gives a cost percentage of 68.1 (the complement of the initial markup percentage of 31.9). Then multiplying the closing book inventory at retail of $78,000 by the cost percentage, 68.1, gives us a computed closing inventory at cost of $53,118. Any additional markups are included in the retail column of figures before the cost-retail percentage is calculated. If we had a physical retail inventory figure, we would have computed its cost value in the same manner by use of the cost percentage.

In summary, the foregoing illustration indicates that the retail inventory method includes six basic steps: (1) charging merchandise to a department or to a store at both cost and retail prices; (2) keeping complete and accurate records at retail prices of additions to and deductions from this stock; (3) determining the markup percentage and through this the cost percentage on the total merchandise handled; (4) calculating from the records the closing retail book inventory, that is, the retail value of the merchandise at hand in the closing inventory; (5) applying the cost percentage to the retail book inventory; and (6) taking a physical inventory at retail prices, usually semiannually or annually, to check the accuracy of the retail book inventory. If this check reveals that the retail book inventory exceeds the physical inventory, a stock shortage exists. If the physical inventory is larger than the book inventory, an overage exists.

Operating statement under the retail method The remaining steps necessary to prepare an operating statement under the retail inventory method are similar to those under the cost method. Consequently, the operating statement will show the following.

	Dollars	*Percent of net sales*
Sales	$150,000*	100.0
Cost of goods sold	115,882	77.3
Gross margin	$ 34,118	22.7
Operating expenses	26,618	17.7
Net profit before income taxes ...	$ 7,500	5.0

* Compute as follows: total merchandise handled at cost, $169,000, minus closing inventory at cost, $53,118, equals cost of goods sold, $115,882.

Advantages and disadvantages of the retail method

Advantages. The retail method (1) provides effective control over profit, (2) permits valuation of inventory on a conservative basis, (3) facilitates taking the physical inventory, (4) aids in controlling stock shortages, (5) furnishes an equitable foundation upon which to base insurance coverage and adjust claims, (6) reveals weaknesses in procedures and brings improved results, and (7) furnishes a basis for dollar control.

Disadvantages. The main limitations of the retail method are as follows: (1) It is an averaging method; that is, in obtaining the cost percentage, the *total cost* of the merchandise handled and its *total retail* value are used and do not reflect variations in markup among items. (2) An accurate and complete record of price changes is required. (3) It is unsuited to certain stores and departments where composition or manufacturing takes place (bakery goods and prescriptions). (4) It is costly to operate. (5) It focuses attention upon the percentage relationships, particularly upon the cost percentage and its complement, the initial markup percentage. Not all items require the same *percentage* margin to be profitable, and some retailing experts feel that more attention should be given to *dollar* margin. To illustrate, a store that buys a piece of furniture at $100 cost may have to sell it for $200 (50 percent margin) for profitability; but another piece costing $600 might profitably be sold at $1,000 (40 percent margin). To overcome this disadvantage, another accounting technique, called *merchandise management accounting,* that attempted to determine the exact cost of selling each item and its most profitable price-volume relationships was introduced and aroused considerable interest during the 1950s and 60s. However, it proved too complicated for practical adoption and suffered other weaknesses. So the technique is not currently used.

The wide scope of technological developments having application to retail operations, the increasing competition of retailers for consumer patronage, the growing pressure of personnel for higher wages and better working conditions, and the necessity of controlling prices and costs to ensure a reasonable level of profit, however, will result in the continued critical evaluation of present accounting systems and the search for improved methods and devices.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. When the retail inventory method is employed, the retailer avoids the necessity of ever having to take a physical inventory.
2. The use of the retail inventory method is not widespread in retailing.
3. The retail method permits the preparation of the operating statement on a more timely basis than does the periodic inventory cost method.
4. In a department store, the retail inventory method would be best utilized by applying it on a departmental basis and accumulating each department’s inventory figure rather than estimating the inventory for the store taken as a whole.

Answer

1. False. When the retail method is utilized, the retailer periodically (yearly or semi-annually) takes a physical inventory at retail prices to verify the inventory at retail prices derived from use of the retail method.
2. False. Its use in very widespread in retailing.
3. True. The retailer too can prepare financial statements whenever desired. No physical inventory is necessary, although one should be taken periodically to verify the book amount of inventory at retail.
4. True. Since the retail method assumes an average markup, the more homogeneous is the mark up for the unit whose inventory is being estimated, the more accurate will be the results.

CHAPTER 21
ANALYZING AND CONTROLLING EXPENSES

Learning Objectives:

After studying this chapter you will be able to:

1. Develop an expense classification procedure.
2. Prescribe an allocation or distribution of expenses procedure.
3. Analyze and compare expense allocations.
4. Establish an expense budgeting process and control.
5. Initiate corrective action procedures.

No problem facing the retailer today is more urgent, more continuous, and more vital than effective control of expenses. Expenses permeate every retail enterprise, and proper control of them is essential if reasonable profits are to be realized.

As we have noted, profits result from a satisfactory relationship among sales, gross margin, and total expenses. They may be improved, for example, by increasing the gross margin dollars without a proportionate rise in expenses, by reducing expenses without a commensurate reduction in gross margin, and by a combination of these two methods. Since competitive influences often make it difficult to increase gross margin, it is essential that close control over expenses be exercised to minimize them and enhance profit possibilities.

Expense control does not always mean expense reduction. Rather, it should be thought of as deciding upon and limiting actual expenses to those necessary for maximizing profit. Effective expense control involves (1) appropriate classification of expenses, with a definition of each item; (2) distribution of expenses to departments and to functions; (3) close scrutiny, analysis, and comparison of expenses; and (4) taking the corrective action necessary to effect whatever changes are suggested by this analysis.

Note that, of course, any expense item may be analyzed in several ways (e.g., on the basis of who incurred the expense, its purpose, who was paid, when it occurred) without increasing the amount involved.

Expense classification

Expense classification divides all expenses into a number of clearly defined groups, such as rent, advertising, and salaries. Its purposes are (1) to provide a detailed breakdown that can be used year after year and permit noting of expense trends and (2) to provide bases permitting comparisons with other stores. These comparisons reveal expenses that are apparently out of line and enable proper remedial action to be taken.

Natural classification. Expense classifications vary among retailers of different sizes and lines of business. Smaller and medium-sized stores generally use a natural classification of expense accounts which is also the basis for the expense center system used by the larger firms. Natural accounts, such as wages and rents, are traditional ones, easily understood by all business people. In a sense they classify expenses on the basis of who was paid, for example, workers and landlords. This classification system is illustrated below by those recommended for food chain stores and for small department stores, but similar plans are also used by independent stores.

FOOD STORES. The following natural accounts are based on *The Standard Manual of Accounts for the Food Chain Industry:* payroll, supplies, utilities, communications, travel, services purchased, promotional activities, professional services, donations, insurance, taxes and licenses (except on income), property rentals, depreciation and amortization, repairs, unclassified, and interest.

IN DEPARTMENT STORES. The National Retail Merchants Association suggests for smaller department stores a 16-point natural classification of operating costs with four additional category groups provided for redistribution and offset purposes. This grouping is as follows: payroll, fringe benefits, advertising, taxes, supplies, services purchased, unclassified, traveling, communications, pensions, insurance, depreciation, professional services, donations, bad debts, equipment costs, real property rentals, expense transfers, outside revenue and other credits, and multiple-store distribution.

Expense centers. For larger stores, the Association recommends that the natural division of expenses be assigned to 23 so-called expense centers, with each center designating a particular activity or service essential to the operation of the store, such as management, sales promotion, and delivery. Thus the total wage and salary expenditures are divided so that those for buying staff are also shown as part of buying expense, delivery workers as part of delivery expense, and window trimmers as part of sales promotion. The other natural expenses are similarly divided and reassigned to the appropriate functional expense centers. This permits management to determine the total cost of performing each function or subfunction. The expense center system is especially useful for comparative purposes because different stores may use different combinations of natural expenses to perform the same job. One store may make deliveries in its own trucks with consequent high wage, equipment depreciation, and garage rent expenditures, while another may use an outside delivery company and have most of its expense under the natural account purchased services.

The cost of performing the delivery task in each store can be compared under the expense center, "delivery."

Indicate whether each of the following statements is true or false by writing "T" or "F

1. Proper operating expense control has the effect of increasing the gross margin of the retailer.
2. Expense control is synonymous with expense classification.
3. Each retailer should attempt to completely develop a unique system of expense classification since no two retailers use comparable system.
4. An expense classification that is structured around expense centers or "responsibility" centers implies a rather large retail establishment.

Answer

1. False. Gross margin is the difference between net sales and cost of goods sold; operating expenses (which are the concern of expense control) do not affect its computation.
2. False. A proper system of expense classification is but one of the components of an expense control network.
3. False. A retailer should consult the publications of the various retail trade associations and in most cases will be able to take a suggested expense classification and *modify* it to his or her specific needs.
4. True. Expense centers are only employed in larger enterprises, in smaller enterprises the entire store is treated as one expense center.

Distribution (allocation) of expenses

With the adoption of a suitable classification of expenses, the retailer is in a position to distribute or allocate them to selling departments within a store or to several stores in a chain organization - an essential second step in expense control. This task is difficult because not all retail expenses can be clearly traced to specific departments or to individual units of a chain.

Direct and indirect expenses. To permit a sound allocation of expenses, most retailers classify their cost items into two broad groups - direct and indirect. Direct expenses are those occasioned by the existence of a particular department, and which would disappear if the department were dropped. Such costs are illustrated by a departments payroll or the supplies it uses. Indirect expenses are those not occasioned solely by a particular department, such as rent paid by the store, that would not disappear even if a particular department were discontinued. It is generally agreed that all direct expenses should be carried by the department causing them, but opinions differ concerning the allocation of indirect expenses.

Methods of *allocating expenses.* Three methods are used to distribute retail expenses: (1) the net profit plan, (2) the contribution plan, and (3) combined net profit and contribution.

THE NET PROFIT PLAN. Under this plan all expenses, both direct and indirect, are divided among the department Store. When deducted from the departmental gross margin, the net profit for the department is determined. Each department is considered as a separate profit-making entity and is judged on its ability to produce profit.

The chief merits of this plan are that it furnishes a basis for judging the merchandising capacity of the department head, fixes responsibility for the overall performance of the department, provides a basis for rewarding exceptional performance, and makes the department heads conscious of the need to control both direct and indirect costs (although in many cases they will have little, if any, control over indirect costs) . Its major limitations are that department heads are judged on the basis of many expenses over which they have no control, that the allocation of indirect expenses is arbitrary at best, and that thus the final figures do not reveal the true profits of the selling departments.

THE CONTRIBUTION PLAN. This plan is designed to overcome the arbitrariness of the allocation of indirect expenses to departments through providing that only the direct or escapable expenses be so assigned. All other expenses are placed in a general bracket with no attempt at departmental distribution. The department expense budget shows only estimates for various direct expenses and a balance that is contributed toward the store's indirect expenses and profit.

Besides its simplicity, this plan forces selling departments and people performing such services as credit, delivery, and accounting to concentrate on those expenses over which they have some control. Its major disadvantages are two: (1) it does not provide a total expense figure for the department, so it is of little aid in long-run pricing; and (2) selling department heads may make inordinate demands for credit, delivery, and other services for which they are not assigned a share of the cost.

COMBINED NET PROFIT AND CONTRIBUTION PLAN. Some retailers desire more detailed information than gross margin, controllable expenses, and "contribution" in weighing the results and value of selling departments. They want additional data on departmental expenses in order to improve their control and increase profits. Consequently, they prepare reports for selling departments which show both the department's contribution and its net profit. When direct expenses are deducted from dollar gross margin, a contribution figure is obtained which can be compared with that of other departments and stores. The principles of the net profit plan are then applied under which the contribution is decreased by the deduction of the indirect expenses allocated to the department. Some stores use the contribution plan but assign a rental charge (the single most significant indirect cost) to each department because of the important effects of space assignments upon departmental sales and earnings.

Production unit accounting. Some chains, department, and specialty stores also use production unit accounting to obtain more detail about the cost of performing very specific, repetitive tasks, for example, wrapping packages. Essentially this technique measures the number of units produced or performed per labor hour and per payroll dollar. It can only be used when the task being measured is performed by employees who work solely on that job; but under such conditions it is highly informative.

Expense comparisons and analyses

After expenses have been classified and properly allocated, the important task of analyzing them may begin. This analysis usually involves three steps: (1) a review of the retailer's own expense trends over a period of time, (2) a comparison of the expenses with those of other retailers, and (3) the analysis of expenses through an expense budget.

Review of *trends* ***and comparisons with similar firms.*** An effective way for the retailer to review the long-run trends in costs is through a five- or ten-year expense table. Consisting of dollar figures for each item in the expense classification, together with these figures expressed as a percentage of sales, this table is a constant reminder of expense trends and calls for frequent study. What are the reasons for them? Has enough been spent to keep store fixtures and equipment up to date? Is more advertising being done or are more expensive media being employed? By answering these and other questions, the retailer decides on steps to be taken to control the expenses. But emphasis on long-run expense trends does not imply that analysis should take place only once a year. Large retailers prepare daily, weekly, and monthly expense reports to improve their control over expenses of all kinds.

Comparisons of a retailer's expenses with those of similar firms are made possible through regular reports issued by various retail trade organizations, showing detailed breakdowns both in dollar and percentage figures.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. The distinction between direct and indirect expenses is that direct expenses are necessary expenses while indirect expenses are discretionary expenses.
2. The *net profit plan* of allocating expenses allocates all expenses to revenue-producing departments.
3. The *contribution plan* of expense allocation centers its attention on each department’s gross margin and direct expenses.
4. Retailers usually can obtain detailed financial statements of specific firms from the various retail trade associations.

Answer

1. False. The distinction between direct and indirect expenses is that direct expenses of a department would disappear if that department were eliminated whereas the indirect expenses would not be.
2. True. The *net profit plan* charges *all* expenses to the store's sales departments, for example, the costs of operating a HR department would be allocated to the revenue-producing departments on some arbitrary basis.
3. True. The *contribution plan* evaluates a department based be allocated to the gross margin less direct expense toward the coverage of storewide indirect expenses and storewide profit.

4. False. Retail trade associations usually only supply industry *average* of the operating results of their member firms.

The expense budget. An expense budget is simply a series of estimates or a forecast in dollars of the various expenses a store will incur in a designated period. Its primary purpose is to make a careful forecast of expenses of all kinds so that adequate provision can be made to meet them and the store's profits can be safeguarded. Besides providing a definite goal and fixing responsibility for attaining this goal, the budget stresses managements need to coordinate all of the store's activities. Moreover, at the close of the budget period, it is possible to analyze the extent of and reasons for any variations between planned and actual expense figures. That is, the expense budget provides a means of analyzing each expense classification both before and after the actual expenditure takes place.

DESIRABLE REQUISITE. An expense budget should be carefully planned, constructed with discrimination and judgment, and judiciously administered. It should be simple and still provide the necessary information to permit effective control. It should also be flexible and serve as an effective device for localizing responsibility and authority.

Despite the foregoing commendable purposes, some executives still object to using a budget. They claim that it may make the organization so penny-conscious that sufficient outlays for its growth and development will not be made; that it is based on overoptimistic sales estimates, with resulting large totals for operating expenses; and that it lacks sufficient flexibility caused by the difficulty of acting quickly when conditions change.

These criticisms are directed more at misuse of a budget than at the budget itself. If the aims of the budget are understood by all executives they should not become too penny-conscious. Likewise, if those responsible for the budget consistently overestimate sales, the moral seems to be to let someone else do the estimating, not to throw out the budget. After all, a budget sets reasonable expenditures, not minimum ones. It is a guide, not a straitjacket; and it is an aid to the judgment of management, not a substitute for it.

BUDGETING PROCEDURE. In setting up an expense budget, at least three important steps are involved:

1. Setting control figures or estimates based on all pertinent, available information. Basic data of two kinds are required for this purpose: (a) an overall total expense figure and (b) a control figure for each major expense account. These figures should be adjusted to the overall control figure.
2. Setting departmental budgets (or individual store budgets in the case of a chain). This step necessitates the following actions: (a) Each department head prepares a budget for the department. Unless the contribution plan is used, indirect cost must be prorated to the departments before the budget can be constructed. Under the expense center concept, attention is focused on each center; and budgeting, so far as selling departments are

concerned, relates only to planning direct expenses; (b) Department budgets are adjusted to conform to the control figures. These adjustments are made by the merchandise manager or the controller, or by the budget committee, often working closely with department heads.
3. Breaking down the control and department budgets into monthly or even shorter period budgets,

ANALYZING EXPENSES THROUGH THE BUDGET. It has been emphasized that the budget permits analysis of each expense classification *before* and *after* the expenditure of funds. The kind of analysis of expenses necessary to build an adequate budget also has been discussed. To complete the picture, a few comments are needed on the importance of reviewing the results at the close of the budget period.

A well-planned expense budget form provides space for entering both planned and actual figures for each expense item included. At the close of each budget period, both figures should be carefully studied to determine the reasons for any variations. Such an analysis is necessary to provide the information the retailer needs to take corrective action.

Corrective action

Classifying, distributing, and analyzing expenses are just means to an end: the corrective action to which they give rise. Put another way, expense control does not actually take place until someone does something about the expenses which the analyses show are out of line.

Expense budget facilitates control. A main advantage of the expense budget is that it permits early remedial action. Even in small stores, monthly reports comparing actual expenditures with those budgeted enable the proprietor to keep in close touch with the store's progress in remaining within its budget. In larger stores, where expenses are controlled by many individuals, a tighter rein over actual expenses must be kept. More attention is given to budget figures and to deviations from them. Some retailers, for example, require that *before* any significant item of expense is undertaken, even within the limits of the budget, the expense must be approved by an expense controller. Such a procedure is desirable for all expenses involving significant amounts, particularly direct ones.

Records: A step to control, not control. Some retailers, in the mistaken belief that records alone will give them control of expenses, have developed too many forms and have become too occupied with interpreting results. While many small retailers still need additional data as a basis for improving operations, many large retailers need fewer forms and more executive action.

Indicate whether each of the following statements is true or false by writing “T” or “F”.
1. Retail executives have found that use of an expense budget necessarily reduces the firm’s flexibility in coping with unforeseen problem

2. Budgeting is most effective when the chief budget officer and staff prepare the budget independent of the operating departments' influence.
3. Expense control is accomplished once the budget have been prepared.
4. Budget are most effectively employed when they are continuously referred to throughout the budget period.

Answer

1. False. *Proper* budgeting maintains management flexibility so that new conditions can be met. The budget should be used as a guide, not as a straitjacket.
2. False. Budgeting is most effective when it is organized as a participative process wherein the operating managers are actively involved in the preparation of their own budget.
3. False. Expense control is only accomplished when corrective action has been taken concerning those expenses, which the analysis show are out of line.
4. True. Once a budget has been prepared, it should be used as a guide throughout the budgeted period; it should not be ignored until the end of the period.

CHAPTER 22
CONTROL OF SALES TRANSACTIONS

Learning Objectives:

After studying this chapter you will be able to:

1. Explain the nature and goals of sales transaction systems.
2. Ascertain the requirements of an effective system.
3. Identify the types of sales transactions.
4. Recommend methods to record sales.

The nature and goals of sales transactions systems

A sales transactions system consists of the procedures, methods, and devices established to handle various types of sales. Basic to its determination is a decision on the kinds of sales the retailer will make and the kinds of equipment to be used to provide the type of service the customers expect.

The main goal of such a system is to ensure smooth functioning of this aspect of the business. Other purposes include the provision of accurate information of the type desired in a form suitable for use and at the proper intervals, the reduction of errors by making their causes more obvious, and the minimizing of losses from employee dishonesty. An adequate and efficient sales transaction system is the keystone of automation in retailing.

Today, all types of sales transactions are being closely scrutinized because developments in electronics and automation are forgoing far-reaching changes in methods, devices, and equipment.

Under the competitive conditions prevailing, large retailers particularly are reviewing their present methods of handling sales transactions and considering the adoption of others more informative, simple, and easier and less expensive to operate.

Requirements of an effective system. The basic requirements of a satisfactory sales transaction system are as follows: (1) simplicity to ensure understanding and conformance; (2) adaptability to the needs of the particular firm; (3) reasonable cost of installation and maintenance; (4) provision of prompt customer service; (5) supplying of desired information quickly and accurately; and (6) permitting adequate protection of assets, particularly cash and merchandise.

Types of sales transactions

As noted, the retailer's decision as to the kinds of sales that will be made is basic in planning a sales transaction system. This decision should be made early because it will govern the types of equipment needed.

Some stores have two major categories of transactions, cash and credit; others sell for cash only. Many variations of these two types exist, however, and knowledge of these variations is necessary to understand their influence on the procedures adopted to handle them.

Cash sale. This transaction is one in which the customer pays for the merchandise at the time of purchase. It consists of two major forms: the cash-take ("take-transaction" or "take-with") and the cash-send (or "send-transaction").

COD sale. In this transaction the customer pays for the merchandise when it is delivered. The amount collected may be either the full amount or the balance that remains after partial payment has been made at the store. The latter type of sale is often called a "part-pay COD."

Charge sale. *A* charge sale is one in which the amount of the purchase is charged to the customer's account with payment expected during the following month. Wide adoption of cycle billing, however, has brought variations in payment dates; while the revolving credit plan permits payment over a longer period than the normal 30 days. *As* with cash sales, there are two kinds of charge transactions, the *charge-take* and the *charge-send.*

Budget, on-contract, or installment sale. In this transaction the customer signs an installment sales contract promising to make weekly or monthly payments of a specified amount until the total amount of the sale, plus a carrying charge, is paid. The store may repossess the merchandise if payments are discontinued.

Will-call sale. In this case the customer pays a definite percentage of the sales price, usually 10-20 percent, to reserve it for an indefinite period - during which time payments are continued until the merchandise is fully paid for and released. This type of sale is also known as a *layaway* and a *deposit sale.*

Discount sale. *A* discount sale takes place when a discount or reduction from the regular price is granted the purchaser. Such reductions are given store employees and certain types of customers, such as clergy, medical doctors, and dentists, depending on the type of store. Some firms classify sales to employees as ED (employee discount) transactions. Although employees may pay cash for their purchases and still receive the discount, it is common practice to charge the goods to their accounts and deduct the amounts from their wages.

Budget-book sale. This kind of transaction, resembling both a cash sale and a budget or on contract sale, is one in which merchandise certificates, purchased upon a definite contractual basis, are used as cash when goods are bought. These certificates are often bound together in a “budget book” containing certificates of various denominations, usually aggregating $15, $25, or $50 in value.

Exchange sales. Exchange transactions occur when customers return merchandise and buy additional items. There are two types - even and uneven - depending on the price of the new selection; that is, whether it is the same as or different from the original purchase.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. The basic determinant of a retailer’s sales transaction system is the nature of his or her sales transactions.
2. Most retailers have a transaction system which is compatible with processing cash sales.
3. The cash sale and the COD sale are processed in exactly the same manner.
4. Under the will-call or layaway sale, title is retained by the seller but the buyer has possession during the period when payments are being made.

Answer

1. True. The types of sales transactions that a retailer makes limit the types of sales transaction systems which he can employ.
2. True. The cash sale is the most typical sale made by retailer. Thus, retailers employ transaction systems which can process the cash sale.
3. False. In a cash sale, the sale and the receipt of cash occur at the same time. In a COD sale, the time of the sale is prior to the time of the receipt of cash.
4. False. The retailer retains possession of the goods until the merchandise is paid for in full.

Recording sales

Two important developments prompted speedier transaction handling and improved operations. One is industry-wide code marking (Universal Product Code in the food industry, Optical Character Recognition in department stores) under which the optical scanner reads symbols on the product to enter the sale and the price in the register and to adjust computerized inventory records. The other is Electronic Funds Transfer Systems in which the supermarket register becomes a branch banking terminal for cash and credit payments and for check-cashing purposes.

CHAPTER 23
RETAIL SECURITY AND LOSS PREVENTION

Learning Objectives:

After studying this chapter you will be able to:

1. Devise and implement external crime prevention strategies.
2. Establish procedures and safe guards to prevent internal theft.
3. Develop controls for identifying and limiting pilferage.
4. Implement fire and accident protection strategies.

We will use the term "security" to mean the total task, which must permeate the company from the top down, of protecting the store's customers, employees, executives, merchandise, and other assets from loss due to either crime or natural hazards such as storm or fire. Under the retail method of accounting, discussed in Chapter 20, the shortage or shrinkage figure is an indication of the extent to which the store's actual inventory falls below the quantities reported on the store's books. Some of this difference is natural and proper, due to breakage or accidental waste of material; but much is attributable to shoplifting and other forms of theft. The problem is to find control measures that will not be oppressive to customers or employees, that will not inhibit business, but that will provide the necessary protection.

External crime

The major crimes committed against retailers by outsiders are shoplifting, price-ticket switching, currency, check, charge account, and credit card frauds, and burglary and robbery.

Shoplifting. Shoplifting is stealing goods from a store's display or shelves while posing as a customer or other legitimate visitor to the store. Store employees should be suspicious of people who (1) wear bulky, loose-fitting unseasonable clothing or carry open bags; (2) appear nervous or constantly look about the store; (3) spend considerable time browsing and moving items from counter to counter; (4) create disturbances; or (5) engage the clerk in long conversations while an accomplice may steal goods. Delivery people, sales representatives, and repair workers who wander about areas of the store unconnected with their duties are also suspect. But these signs are not positive indicators of shoplifting nor *will all* shoplifters manifest them. Young amateurs are the most frequently apprehended shoplifters, but experts believe that professionals cause greater losses.

Control measures include the following: Proper store layout and design that will allow maximum visibility. If consistent with fire safety needs, all exits from self-service stores should be through checkout lanes. Fitting rooms, often used by thieves to purloin or rearrange stolen goods, are now frequently fitted with half-doors and patrolled by detectives of the appropriate sex. (2) Visible equipment such as fixed cameras and convex mirrors are used in some stores, but the camera-closed circuit TV systems are expensive and the mirrors will warn shoplifters of approaching employees. (3) Enclosed display cases for valuable items, fastening expensive coats to racks by chains, displaying only one unit of an item such as shoes normally sold in pairs, and similar techniques will reduce losses but may discourage sales. (4) "Article surveillance," securely fastening to each garment or item an electrically charged metal tag that will activate a warning device at the store exit unless previously neutralized at the sales register can be very effective, but salespeople must not be careless about deactivating the tags. (5) Community publicity campaigns that warn young people of the seriousness of shoplifting arrests have been helpful in some cities. (6) Floor coverage, the presence of an adequate number of alert salespeople and supervisors on the selling floor, is the most important deterrent to shoplifting. Checkout cashiers and other store workers should also exercise vigilance.

Laws in many states now permit merchants to detain suspected shoplifters without fear of claims for false arrest if (a) there are probable grounds for such suspicion, (b) the detention is accomplished in a reasonable manner and is only for a reasonable length of time, and (c) such detention will help in recovering the stolen goods. In spite of such legislation, untrained employees should not attempt to apprehend shoplifters because of possible violence and claims for damages, but should alert supervisors or security workers. Apprehensions may legally be made within the store, but many security specialists prefer to wait until the shoplifter has left the premises without paying. Many experts recommend prosecution rates that range from 20 percent to 40 percent to avoid the expense of numerous court appearances. But because of the seriousness of the problem, a number of stores now prosecute practically all apprehended shoplifters.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. If stock shortages are 3 percent at the end of a year in a given store, this means that 3 percent of the merchandise was stolen.
2. Young amateur shoplifters are the most frequently apprehended shoplifters.
3. The most important deterrent to shoplifting is the use of hidden cameras and convex mirrors.
4. The fear (and high cost) of being charged with false arrest has virtually prevented merchants from detaining suspected shoplifters.

Answer

1. False. Apparent shortages may also be caused by breakage or accidental wastage and by carelessness in reporting price changes. But much is attributable to shoplifting and other forms of theft.
2. True. But experts believe that professionals cause greater losses.

3. False. The most important deterrent is the presence of an adequate number of alert sales persons and supervisors.
4. False. Many state laws now protect merchants against claims for false arrest. If (a) there are probable grounds for suspicion, (b) reasonable means of detention are used and it is only for a short time, and (c) such detention will help in recovering stolen goods.

Price-ticket switching. Customers who engage in this illegal act transfer the price tag or other markings from an inexpensive product to an expensive one before taking it to the checkout counter or sales register and thus shoplift the difference between the two prices. One of the best ways to control this practice is to fasten all tags with special tamperproof pins. Requiring new official price tags for all markdowns will prevent customers from writing their own figures on the tags. The supply of price tickets should be carefully controlled. Checkout cashiers should watch for any items presented with suspiciously low prices.

Currency, bad check, charge account, and credit card frauds. Counterfeit currency presents a serious problem that can be met by familiarity with the distinguishing characteristics of good and bad money. The U.S. Secret Service and the Federal Reserve Board issue booklets on how to recognize counterfeit bills. Protection against stolen checks, checks drawn upon non-existent banks or accounts, and checks on accounts with insufficient funds can best be obtained by requiring good identification of all who present checks for cashing or payment. Photo identification machines seem to reduce bad check losses. Employees who authorize checks for payment should be limited in number, carefully prepared, trained to demand endorsement in their presence, and especially watchful of out-of-town and irregular-appearing checks. Methods for dealing with attempted misuse of charge accounts and credit cards were discussed in Chapter 21, but again involve obtaining proper identification and verifying the current status of the customer's account.

Burglary and robbery. Burglary (illegal entry for the purposes of theft) and robbery (theft in the presence of the victim, usually by force) are less frequent than the crimes discussed above but are potentially more dangerous. Location and store design are the best preventive measures. Interiors visible from busy streets; strong buildings with secure locks, tight grilles over ventilation shafts and similar openings, and shatterproof glass or plastic windows; well-lighted perimeters; and escape routes (parking lot exits) that can be closed at night offer considerable security. Burglar alarms may be used; safes should be heavy and/or firmly attached to the building. Minimal cash should be kept on hand; bank deposits made at different times and by different routes; cash register drawers left open and empty at night to avoid damage. Store personnel should never attempt to resist an armed robber but should try to remember facial details and other distinguishing characteristics.

Internal theft

The internal theft problems that can arise in a retail business include pilferage of merchandise and supplies by employees, retention of store money by employees who handle cash, collusion between employees and outsiders, and major forms of embezzlement. Internal theft losses are probably far greater than those due to external theft.

Since employee behavior usually mirrors the ethical standards of the store itself, management should exhibit great honesty in all dealings with customers, suppliers, employees, and executives. Employees will accept and even welcome strict controls if they are applied consistently, uniformly, and fairly. Careful selection of store workers, including full review of work histories and telephone check of references, is advisable. Personnel who live beyond their means, who are chronic complainers, or who try to prevent access to their books are suspect. But applicants' and employees' civil and legal rights should be protected.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. Counterfeit currency is a serious problem, and employees can be trained to recognize it.
2. Burglary and theft are synonymous terms.
3. Store personnel should be trained to resist an armed robber.
4. Internal theft is a major problem.

Answer

1. True. It is a serious problem. The U.S. Secret Service and the Federal Reserve Board both issue booklets on how to recognize counterfeit bills.
2. False. Burglary is illegal entry (when the store is closed) for the purposes of theft. Robbery is theft in the presence of the victim, usually by force.
3. False. They should never resist an armed robber. Instead, they should try to remember facial details and other distinguishing characteristics.
4. True. In fact, losses from it probably far exceed those from external theft.

Pilferage control

Pilferage is attacked by controlling the ways in which employees can remove merchandise from the store, warehouse, and trucks. Packages may be examined, perhaps randomly, at the employee exit in large stores. Charge and layaway records for employee purchases should be audited carefully. Merchandise shipments arriving at and leaving the store should be checked, and so should the store trash since it is a favored hiding place for pilfered goods that will be recovered later.

Cash theft and embezzlement. Careful control should be exercised over receipts, payment vouchers, gift certificates, and all other forms that record, authorize disbursement of, or substitute for store funds. Register tapes should be audited for unusual practices such as excessive use of the “no sale” key, and the sales transaction system should be tested frequently. Insofar as possible, payments, whether to employees or suppliers, should be authorized by someone other than the individual making the payment.

Any sudden unexplained increase in expenses, merchandise returns, bad-check write-offs, or bad debts or any similar reduction in sales, margins or profits is a warning of possible embezzlement and should be investigated for business as well as security reasons.

Collusion. Some forms of dishonesty previously cited may be implemented by collusion between a store employee and an outsider. A salesperson may undercharge friends; a receiving clerk sign for more than was actually delivered; a buyer may accept bribes from suppliers. An atmosphere of strict honesty is the best preventive, supplemented by close supervision. Deliveries may be double-checked, buyers' purchases approved by knowledgeable senior executive.

Carelessness and error. Although not involving moral culpability, mistakes and errors can cause great loss. Illustrations include the item sold for less than full price because of illegible price marking, the invoice paid in full because available discounts were overlooked, and the merchandise tossed away with the store's refuse because the shipping carton was not completely emptied.

Fire and accident protection

No building is absolutely fireproof, inflammable merchandise, packing and wrapping supplies, display materials, restaurants and cafeterias, trash chutes, electrical wiring, and heating and air-conditioning systems pose special problems. Measures to reduce fire risks include (1) proper building design and construction; (2) fire detection and alarm equipment; (3) well-maintained sprinkler system; (4) sufficient hand-operated fire extinguishers; (5) fire exits with emergency lighting; (6) neat, orderly house-keeping; and (7) rigorous enforcement of smoking rules.

Good lighting; safe construction with nonslip floors; prominent markings on glass doors; elimination of sharp edges and protruding rods from counters, display racks, and other fixtures; and control of housekeeping standards will reduce customer and employee accidents. Store workers should be trained in proper methods for lifting heavy objects and for handling hazardous equipment. Management should also plan to cope with natural disasters such as (depending on locality) floods, hurricanes, and blizzards and with civil disturbances.

Conclusion

Although retail businesses are susceptible to a surprisingly large number of criminal, negligent, and natural hazards, management simply cannot act as if it is at war with customers and employees. Security measures should be designed to avert trouble while contributing to courteous, efficient service and harmonious labor relations. Proper building design, sensible precautions in merchandise display, insistence upon compliance with well-planned control and bookkeeping systems, and above all, maintenance of an atmosphere of fairness and honesty will do much to accomplish this goal.

Indicate whether each of the following statements is true or false by writing "T" or "F".

1. Even the store trash cans should be checked for pilfered merchandise.
2. Being aware of changes in relationship between related items can be indicative of theft or embezzlement.
3. Collusion between a buyer and a supplier can result in losses to a retailer.
4. Losses from criminal, negligent, and natural hazards should be reduced at all costs.

Answer

1. True. Store trash is a favored hiding place for pilfered goods that will be recovered later
2. True. For instance, if gross margin as a percentage of net sales decreases, this could mean that inventory has been stolen.
3. True. For instance, the buyer may purchase over priced goods and then receive a kickback (a return of at least a part of the excess amount charged) for doing so. The retailing company pays much more for these goods than it should have had to pay.
4. False. Management simply cannot act as if it is at war with customers and employees. It will drive good customers and employees away if it does. Instead, it should take reasonable precautions and should create an atmosphere of fairness and honesty.

CHAPTER 24
MANAGEMENT COORDINATION AND LEADERSHIP

Learning Objectives:

After studying this chapter you will be able to:

1. Establish a method of coordination for profitable operation.
2. Identify the major tools of coordination.
3. Describe the main steps in retail research.
4. Explain the nature and scope of retail research.
5. Justify the need for keeping current on changing conditions and practices.
6. Detail the role of executive management leadership in retailing.
7. Identify management characteristics.

Coordination essential to profitable operations

Management's prime responsibility is to operate profitably. Without a profitable business the retailer cannot provide jobs at competitive wages, engage in research activities, support community projects, or adapt policies and practices to a changing environment. The various departments or divisions must function as well-integrated units, and the whole organization be well adjusted to present conditions and flexible enough to meet those in the future.

Adjustment to present and changing conditions. To discover the adjustments called for by current conditions, the retailer should possess an inquiring, critical mind and continuously consult associates to find answers to problems. And making these adjustments is difficult because the rate of change today is constantly accelerating. The outpouring of consumer's goods, the rise in population, changes in consumer purchasing power, shifts in consumption patterns, the suburban movement, the emergence of new technologies and current labor and government relations developments, among others, are necessitating numerous adjustments in store policies and practices.

Unless the retailer looks ahead, notes the trends, carefully plans adjustments, utilizes the newer management tools, and coordinates the entire organization to effect the necessary changes, satisfactory customer service cannot be rendered or maximum profits be realized.

Responsibility for coordination. Coordination is a function of the general manager of an organization or of a small executive committee. In the large organization the general manager relies upon numerous individuals, such as the HR manager and the merchandise manager, for assistance. These executives are delegated authority and responsibility and report to the general manager either orally or in writing.

Since the human element is so important in retailing, it is difficult to overstate the need of executive leadership in achieving coordination. The quality of a store's leadership determines what the store is or is not.

Major tools of coordination

Four tools of coordination are especially important to the retailer - internal standards, comparisons of operating and merchandising results with those of other retailers, the budget, and research.

Internal standards. Standards are criteria of satisfactory performance under existing conditions and circumstances. They are not an ideal which can seldom be attained nor should they be considered as marks to shoot at, but, rather, as fair measures of immediate attainable performance. As such, they are an important tool of coordination. But setting standards is not enough. Some form of control is needed by which management can promptly discover the quality of performance in terms of these standards.

TYPES OF INTERNAL STANDARDS. Retailers use many different types of standards which we will classify here on the basis of the units being measured: (1) sales standards such as sales per square foot, sales per employee hour, division of sales between departments; (2) merchandising standards, for example, average initial markup, markdown rate, turnover rate; (3) operating expense standards; (4) service standards such as checkout line speed, number of customer complaints; (5) financial standards, for example, current assets divided by current liabilities; (6) profitability measures such as net profit and return on investment and; (7) social indicators. The latter, measures of social performance, are likely to become more important in the future.

USING INTERNAL STANARDS. Most retailers use standards based on their past experience, but they follow a careful procedure before adopting them. The standards should be reasonable, attainable, and have beneficial results. Setting too low a sales promotion expense standard or too high an initial markup standard, for example, will have adverse competitive effects.

Although objective standards for all areas in which the retailer is interested cannot be set, it is possible to devise them for many important matters necessary to achieve successful coordination. They should be in written form, compared with actual results, and result in prompt action when advisable.

Comparison of results with those of other retailers. Perhaps the retailer is trying to run the store with poorly trained employees, a fact reflected in comparatively low sales per salesperson, a high returned goods ratio, and a low ratio of actual buyers to those entering the store. Or perhaps there is a low advertising ratio with stationary or declining sales. Direct comparisons are needed to detect unfavorable trends and result in adopting measures to correct them.

Often retail trade association figures show that the most profitable one third of the stores earn two, three, or four times as much as the average. If one's experience is compared with that of stores in the most profitable one third and in the a remaining two thirds, valuable information will be obtained concerning points of strength and weakness in operations.

SOME SOURCES OF COMPARATIVE DATA. Data for comparative purposes are available from numerous sources. Dun & Bradstreet, Inc., issues several detailed comparisons of operating cost ratios for retailers in all common fields of operation. And detailed data on many fields are available from universities and colleges, and retail trade associations, the U. S. Bureau of the Census, and various trade papers.

Indicate whether each of the following statements is true or false by writing "T" or "F".

1. Coordination is not a separate management function but rather is the natural outgrowth of properly carrying out the other management functions.
2. Internal standards should be currently attainable by the employees and operating units whose performance they are used to measure.
3. Standards should be used for control purposes.
4. Retailers find it extremely difficult to obtain data so that they may compare their results with those of other retailers since sources of these data are virtually nonexistent.

Answer

1. False. Coordination is a distinct management function; it must be actively pursued by management. It does not casually emerge as a natural outgrowth of the other management functions.
2. True. Internal standards should be attainable standards, not ideal standards.
3. True. They should be compared with actual results and should result in corrective action when necessary.
4. False. Retailer may obtain data from Dun & Bradstreet, Inc, universities, and retail trade associations, the U. S. Bureau of the Census, and various trade papers.

The budget. As noted in Chapter 8, the formation of a budget forces store executives to plan and to coordinate their activities, even before merchandise is bought and sold. Each official is given a goal in very specific terms, and a definite amount of money is allocated for this purpose. At regular and frequent intervals, results of actual operations should be checked against the planned goals. Deviations from these goals are reviewed by the general manager and explanations are promptly sought. Only through such action can the full benefits of the checking process be realized.

Research. Retail research may be defined as the organized search for, and the analysis of, facts related to problems in the field of retailing. It also includes recommendations by the researcher for solving the problem being investigated and the follow-up necessary to determine the results of their adoption. Despite its importance, all too many retailers are failing to make sufficient use of research. This situation is especially acute in the small- and medium-sized independent stores. But the amount, variety, and sophistication of the retailing research being conducted by merchants and others is steadily increasing.

MAIN STEPS IN RETAIL RESEARCH. Assuming that the problem upon which information is desired has already been recognized and defined, four steps are involved in retail research: (1) gathering and summarizing the data, (2) analyzing and interpreting it, (3) preparing a report containing recommendations for improvement, and (4) following up to see that the adopted suggestions are put into effect and noting the results of their adoption.

Retail research cannot be carried on effectively unless management is research-minded. Specifically, it must recognize the need for developing information to aid in making decisions; it should not be too impatient for results; and it should recognize and appreciate the costs involved. Moreover, research should be conducted by qualified personnel under the direction of one whose experience and knowledge justify management's confidence in the recommendations. Just as essential is the raising of provocative questions for consideration by top management.

NATURE AND SCOPE OF RETAIL RESEARCH. An understanding of retail research can best be provided by a brief examination of some of the main areas to which it is presently being applied.

Customer research. This research refers to studies that are focused on customer attitudes, beliefs, buying habits, and motives. Many studies now try to determine what image customers have of a store.

Sales projections. In discussing the merchandise budget in Chapter 9, it was stated that the first step is to plan sales. Sales planning requires a considerable amount of research. One firm, Sears estimates its sales five years in advance, correcting those forecasts from time to time as conditions warrant.

Product and assortment research. Research of this type involves both customer studies as well as information from other areas related to the proper assortments of products to be carried. The increasing variety of products available makes such research essential.

Management research. This research is illustrated by a study of the responsibility and authority of all key management positions. Such a project may involve, for example, a comparison of the organization structure of the firm in the light of defined goals with that of its competitors.

Merchandising research. Research of this type is concerned primarily with gathering, summarizing, and interpreting merchandising statistics. It is assuming greater significance because of three main factors: the tremendous volume of merchandising data becoming available, the mounting complexity of the information required for valid merchandising decisions, and the speed by which this volume of data can be handled.

Advertising and display research. The nature of this research may be indicated by the activities of food chains to test the effectiveness of special displays in the sale of specific food products, and to determine how best to group products on the shelves of a self-service operation.

HR research. HR research covers human relations problems involving rank-and-file employees and also executives. It is conducted to obtain answers to such questions as the following: Is our store competitive in training methods, salaries, and promotional schedules with other stores in the city?

Operating research. This type of research involves the investigation of problems related to operating activities of the store. It includes such matters as store layout; maintenance of the building; all forms of customer service; and receiving, marking, and warehouse operations.

Systems research. The increasing complexity of business has created the need for improved information systems. Systems research renders valuable assistance in the search for better retail data handling methods that will provide more information about customer behavior patterns and preferences regarding styles and prices as well as in evaluating alternative advertising programs.

Communications research. Research of this type involves studies of a store's correspondence with its customers and merchandise resources for the purpose of improving relationships with them.

Location and other research. Site selection research technique were discussed in Chapter 4. Research directors are also studying expense control, security measure, and other topics.

Basic retail research. Perhaps the greatest need is for basic research on how retail firms grow and evolve, the effects of population and environmental changes upon retailing, and the changing roles of retailers in the marketing channels and the adjustment these changes require.

Indicate whether each of the following statements is true or false by writing "T" or "F".

1. Retail research is mainly concerned with the problem of sales forecasting.
2. Merchandising research is decreasing in importance due to the lack of reliable data in this area.
3. Systems research is concerned with the analysis of the retailer's information system.
4. Basic retail research concerns itself with basic, everyday retail problems.

Answer

1. False. Retail research is concerned with the systematic study of all areas of interest to the retailer, including sales projections, customers, products and assortments, management, merchandising, advertising and display, personnel, operating activities, systems, correspondence, and basic retail research.
2. False. Merchandising research is assuming greater significance, one reason for this is the tremendous amount of merchandising data that are being compiled and made available.
3. True. System research attempts to aid the retailer in improving and utilizing his information system.
4. False. Basic retail research challenges some of the underlying assumptions and postulates of retailing in an effort to achieve significant innovations.

CONDUCTING RETAIL RESEARCH. As noted, effective research activities necessitate proper management attitudes and qualified research personnel. The latter point requires amplification.

An independent or a salaried research department. It is easy to conclude that independent persons should be engaged to conduct research in small firms, and full-time salaried research departments in larger ones. In practice, however, this conclusion does not receive wide support. Some large firms maintain that the use of independent consultants reduces research costs, since their research is not continuous. Each firm, however, must make its own decision based on its particular situation and requirements. But most large firms engage research consultants especially well equipped to handle particular problems and with completely objective points of view as the need arises. Since continuous research by large retailers is advisable, employment of a full-time salaried research director who can benefit from accumulated knowledge of the business is recommended.

Qualifications of the research director. The research director needs to be well trained in research techniques and have a solid background of experience both in research and, preferably, also in retailing. He or she should have the confidence of the firm's executives, be objective and thorough in analyzing data, understand the current subjects requiring research in the company, and have the abilities to write and to present orally short, convincing reports.

The research report. The report to management should be concise and yet include the essential data required for interpreting the findings. Executives are concerned primarily with the results of studies made, their significance in connection with the problem at hand, and the reasons and recommendations for future action. These should guide the report writer.

Research assignments. Since the research director in the large store is an “arm" of the general manager, many research projects will originate with this major executive. But if the research director is capable and succeeds in winning the confidence of department executives, they will request assistance with their problems .

Keeping "current"

All successful retailers must keep abreast of changing conditions and adapt their policies and practices to these changes. How do they fulfill their obligation?

Small retailers acquire much information by watching competitive developments in the vicinity; reading trade papers; traveling; attending conventions; and talking with sales representatives, manufacturers, and competitors. Large firms rely heavily upon these same sources, but some supplement them in various ways, such as subscribing to advisory services or employing an economist to keep their executives informed.

Looking ahead on automation. Since retailing tomorrow may be affected so much by automation, management must be informed about it. One authority suggests this responsibility includes the following:

1. Management should become familiar with all the latest developments in the mechanization and automation of retailing operations, including the current status of electronic data processing.
2. It should make a careful evaluation of the company's needs and requirements and the suitability of the available equipment or processes in the light of the firm's needs.
3. Assuming that investigation reveals the need and value of mechanization, make plans for installation of system and anticipate the problems likely to arise. At least two major areas *will* require study: (a) choosing the activities to be covered ; and (b) making the organizational changes necessary to carry out the installations.
4. Scheduling the conversions involved in the application of the new system to the various activities to be included.
5. Review the new installations continuously to discover unanticipated developments in operation and to improve their usefulness as tools of management.
6. Look to the future, seeking constantly to be prepared to meet the challenges and the opportunities our growing economy will provide. The stores of tomorrow are taking shape today.

Executive leadership in retailing

Once again, it should be stressed that effective coordination of retail activities requires constant attention and follow-through by top management.

Communication essential. The follow-through aspect of coordination requires an adequate system of communication within the organization since the desired adjustments cannot be made unless the personnel is fully informed regarding their responsibilities. In the small store the proprietor can perform this task either on a group or individual basis. In larger ones a more formal communication arrangement is advisable. Meetings should be scheduled; and written statements of plans and the reasons for them should be disseminated at appropriate times.

Communication is especially difficult for chain store organizations with many units. Although also relying heavily upon written material, such firms as J. C. Penney Company still like to have their people talk things over. To this end, planned meetings are held at various times throughout the organization.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. Most large retailers have established research departments.
2. Research assignments typically are selected and under taken at the discretion of the director of the research.
3. Retail managers should keep abreast of the latest developments in data processing with an eye toward automating their operations.
4. As organizations expand, the problems of coordination and communication multiply.

Answer

1. False. The tendency is for retailers to contract with an outside agency as the need for research arises.
2. False. Many if not most, research assignments are initiated by a request from the general manager or a department executive; the research director is then responsible for their accomplishment.
3. True. The benefits (e.g. cost savings) of EDP will permit more and more retailers to automate their operations to some degree.
4. True. Organizations must pay the price of complexity for the advantages of growth.

Management characteristics

In addition to communicating clearly with subordinates and checking closely on results, successful retail managers have certain other characteristics. They are willing to assume responsibility; they are fair in their dealings with others and are perceived to be fair; and they have what one executive calls “bifocal vision” an ability to plan for the future while still keeping an eye on current details.

The "new management." In previous chapters mention has been made of a number of techniques, types of equipment, and management methods used to conduct and control retail operations. Spurred by technological advances and applications of management science to retailing, these developments have included, among other things, general emphasis on study of human behavior, improved employment and training methods, computerized information systems, credit authorization, operations research, and such equipment as sales register terminals. Employment of these newer techniques and devices is frequently being termed the “new management." In other words, such management refers to those executives in business who are well acquainted with the newer computerized techniques and management science tools and who are in a position to use them effectively.

Management's primary function always has been, and will continue to be, the production of optimum results with the resources available. Fulfillment of this responsibility requires a skillful blending of all resources - physical, financial, human, and other - varying the mixture as conditions warrant. Tough-minded management, new or old, carefully examines the nature and causes of the company problems, evaluates courses of action, and chooses the course considered most desirable from the point of view of the company, its employees, and the customers it serves.

Management by objectives. One aspect of the a “new management" philosophy is the present stress on management by objectives. Broadly speaking, such management refers to the establishment of clearly defined objectives set in measurable terms for all levels of management in the light of goals set for the company as a whole.

It is evident, of course, that before one can manage by objectives, these objectives must be formulated for al1 areas of responsibility, understood, and supported by company executives.

Social responsibility of retailing management. Modern retailing management's responsibilities go beyond those advocated by many spokesmen for the "new management" and “management by objectives." They should (and to an increasing extent do) also encompass a strong sense of social responsibility and community involvement.

Abundant opportunities exist for retailing’s participation in the broad area of social responsibility. To mention a few, employment and training of minority groups to relieve unemployment and reduce the number of welfare recipients; providing management aid, especially in initial operations furnishing advice on consumer credit uses and abuses; and serving on community committees and boards that are seeking solutions for urban and suburban problems, so widely prevalent.

Fortunately, business people in general and retailers in particular are aware of their opportunities and obligations and are doing something about them. This is evident from their widening response to appeals.

Indicate whether each of the following statements is true or false by writing “T” or “F”.

1. Many new techniques and devices are being used in modern retailing which were not used previously.
2. Management’s primary function has been changed by the arrival of the “new management”.
3. Management by objectives involves defining each individual’s responsibilities in light of what he or she is trying to accomplish.
4. Retailing should be committed to short-run profit maximization.

Answer

1. True. These items include an emphasis on human behavior, improved employment and training methods, computerized information systems, sales register terminals, operations research, and others.
2. False. Management's function has always been, and will continue to be, the production of optimum results with the resources available-physical, financial, human, and other.
3. True. In this approach the objectives must first be formulated, understood, and supported. Then actions are taken by each individual to achieve the objectives for his or her area of responsibility.
4. False. There is increasing awareness of business' (and retailing's) social responsibility. Many of the programs designed to implement this responsibility will reduce short-run profits. Their effect on long-run profits is difficult to predict, but many believe they will be enhanced.

CHAPTER 25
BRICK AND MORTAR TO CLICK AND MORTAR: E-TAILING

Learning Objectives:

After studying this chapter you will be able to:

1. Define the objectives of electronic commerce.
2. Facilitate online selling.
3. Improve your Web presence.
4. Discuss E-tailing strategies.
5. Explain the competitive nature of web-based services.
6. Identify the opportunities enjoyed by opportunistic marketing methods.
7. Develop loyal link markets and loyal chain markets.
8. Outline future changes in retailing.

A “Click and Mortar,” in contrast to a “Brick and Mortar,” involves online shopping, simply known as *e-tailing*. There are electronic malls. A mercantile transaction involves an information exchange between buyer and seller followed by a payment. In online sales, retailers search out customers. *Electronic commerce (EC),* which is a broader version of e-tailing, involves order fulfillment, customer interaction, order entry and processing, and after-sales service.

E-commerce is especially suitable for viable goods and commodity-like products that one does not need to touch, smell, or try on. The Internet may be used to link together different aspects of the sales cycle. In so doing, new services and channels may arise such as linking sales to online cataloging and order forms. With the Internet, there are opportunities for new products, services, and business models. For example, a company should identify and foster relationships with customers who access the Internet.

Interactivity between online retailers and consumers surfing the Net enable the retailer to obtain consumer preferences regarding product price, service, and quality. Retailers should determine the best design for a user interface so goods available for sale appear nearer to customers. The ability to find products through an easy search should also be considered. What is the sophistication of user interfaces? How will the product actually look, perform, or function?

Retailers like the Web due to lower costs, innovation, access, and reach. Setting up a Web storefront is a major aspect of e-tailing advertising activities including for multimedia and video products. Retailing is an interactive multimedia environment requiring much work. The consumer interfaces should include graphics, text, simulation, virtual reality, and 3-D images. Virtual retailing should expedite, have higher quality, and be less expensive than actual shopping. Interaction should exist between the retailer and consumer including two-way communication. Online technology should be such that consumers can easily find their way through Web pages. Success in online retailing technology must be complemented with operational and managerial strategies. The software frameworks applicable to purchases are product and service content, Web server with retailer services, checking and authorizing transactions, payment settlement, and filling and delivering the order. The online retailer should try to leverage on brand names it sells. Emphasis should be placed on quality and value of products and services to online customers.

There is a need to continually revise, enhance, improve, and repackage products. The management of inventory and supplies relates to manufacturing and demand information obtained from customer orders to Web stores.

Consumers may place electronic orders (forms) for the entity's products and services. This may be done through client/server applications, the Web itself, or e-mail. Workflow software may be used to move customer orders facilitating the merger of the electronic exchange of orders and the retailer's internal processes.

In setting a selling price for a product, consideration should be given to cost and value. In online retailing, two types of prices exist. They are access pricing and product pricing. Access pricing is what is charged someone who wants to shop at a particular place. This is in the form of a fee accessed by the Internet access provider.

Online retail sales may be encouraged in a number of ways including trade-in allowances, price discounts, and rebates. A retailer can entice consumers to download a file by offering a discounted price, providing a free add-on product, giving an additional service contract, and giving "points" such as toward a hotel stay. Retailers want to encourage a customer buying today rather than waiting later. A sale can be accelerated through short-term promotions such as coupons expiring within one month.

The online retailer should formulate a merchandising strategy including product pricing, what to sell and how to sell it, timing of product introduction, shipping mechanism, supply/demand relationship, product mix and integration, customer demographics, consumer behavior, product development, safety issues, and quality. Online retailers should identify the desired customer segment, consumer characteristics and profile, and way to make a desirable package of products. Online retailing is without the constraints of space and time.

Online retailers should take into account the following:

- Type of goods appropriate for online selling.
- The prices customers are willing to pay based on quantity, quality, features, packaging, and conveniences.
- Steps involved in shopping by customers.
- Manner of payment by customers for online purchases.

- Type of location and site appraisal.
- Market segmentation.
- Penetration of market to attract most customers.
- Inventory management.
- Image enhancement.
- Managing human resources.
- Advertising and promotion.
- Suitable software interfaces.
- Policies and procedures.
- Retail organization.
- Decision support.
- Pricing.
- Quality of customer service.

The following is involved in setting retail strategy:

- Finding new customers.
- Establishing a long-term relationship.
- Characterizing the customer.
- Type of presentation to be made.
- Modifying marketing approach based on customer feedback.
- Determining merits of customer complaints.
- Customer negotiations.
- Determining customer needs and what makes them purchase an item.
- Making the sale.

There is a postpurchase phase involving customer service and support involving such issues as product defects, merchandise returns, and customer complaints.

CD-ROMS provide an inexpensive and efficient alternative to print catalogs. There is multimedia capability to CD-ROMS including photos, motion, and sound to product presentations. CD-ROMs are also interactive. Some CD-ROM catalogs offer online ordering. Some retailers are only online such as Amazon.com, which sells books and others online via the Internet. It has no actual stores. To speed up delivery, however, Amazon does have warehouses carrying inventories.

Some companies have inventory that is only digital. An example is a software company having commercial software packages in electronic form, the inventory is stored in the same computer system that receives and processes orders on the Web. Some companies have hardware components (e.g., electronic connectors) on their Web-based catalog. This avoids the need for an electronic data interchange (EDI-based buy order and confirmation). Suppliers are evaluating their technological solutions to reduce costs such as for delivery, manufacturing, and staffing. They are more efficient manufacturers of products.

SELLING ONLINE

Providing the ability to order online enhances the likelihood of a sale. It is much easier for a customer to click the "purchase" button on a web site than to call the company and give his or her name and product number and other information. However, in most instances, customers should not be forced to order only through the Internet. Many customers don't yet feel comfortable about giving their credit card numbers over the Internet. Giving such customers a choice, such as ordering through the telephone or fax, would help increase the company's sales.

Online ordering gives a company a marketing edge. It is easy to take advantage of the interactive nature of the Internet and track a visitor's browsing habits. If your tracking program notices that an individual has repeatedly visited your web site without placing an order, a special offer could be made to that individual to encourage him to place an order.

Cross-selling is another advantage of online ordering. Assume a customer is ordering a backpacking tent from a sporting goods web site. This provides you with a wealth of information and creates a great cross-selling opportunity. For example, you can remind the customer to purchase a sealant to water-proof the tent, or a tarpaulin to protect the tent floor. Such customers might also be interested in purchasing hiking shoes, backpacks, sleeping bags, trail maps, insect repellents, and other similar items.

For instance, a sporting goods web site could offer customers a chance to browse through your "hiking checklist" to ensure they haven't forgotten something important, such as a first aid kit, for their hiking trip. However, the checklist should not be self-serving. The checklist should be of value to consumers. It should not simply be a list of items you wish to sell to customers. The checklist should contain items that are needed in hiking, and not only the items your company sells. For example, while your company may not sell portable water purification systems, these items should be included in the checklist. Furthermore, you may want to provide links to other web sites that sell water purification systems. An added advantage of this may be that the linked site may include a reciprocal link back to your company's web site.

Make it easy for the customer to make an informed purchase decision. Customers can be encouraged to upgrade their product choices. Many individuals may be willing to spend more for a better quality product if they are educated on its benefits. Quantity discounts may be offered to encourage further sale.

Printed brochures and catalogs are generally expensive, are limited in space, and typically become outdated quickly. On the other hand, space on the Internet is inexpensive, virtually unlimited, and the information on it can be updated quickly. For example, if you see that a product's sales are below expectation, a special discount can instantly be offered to encourage sales.

Customers should be allowed to save their purchase orders. It should be easy for them to add or delete items as they browse through the web site. If they don't wish to order or pay for the products immediately, they should be given the option to save their purchase list until a later time. Make it easy for customers to order the same products again, or to modify their previous orders. The ordering process should be kept clear and simple. If certain customers are offered special prices, such adjustments should occur automatically.

It is possible to purchase keywords on search engines such as Yahoo! or Alta Vista. Each time a user types a search phrase that matches those keywords, your company's advertising banner will appear along with the search results. This can help increase visits to your web site significantly.

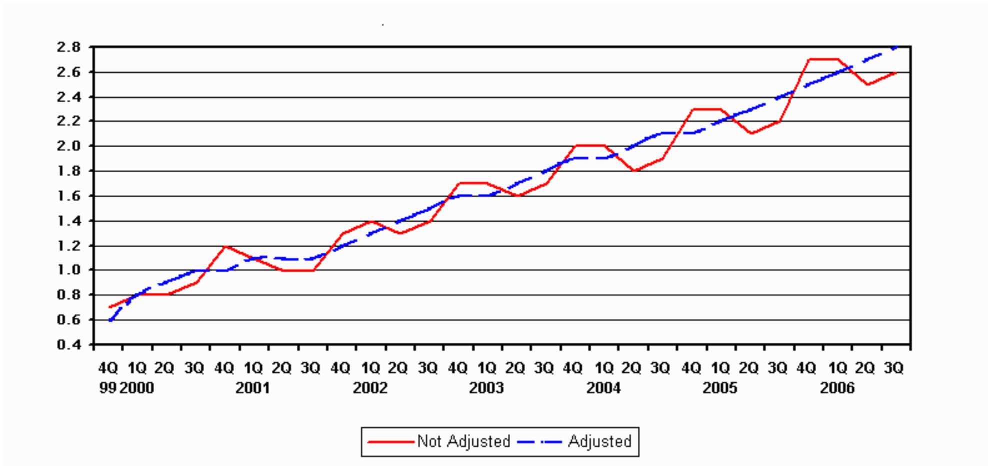
E-TAILING STRATEGY

How are existing businesses, the "Brick and Mortars," going to make the transition to this new avenue for commerce? Brick and mortar businesses must develop a strategic relationship with an experienced Internet firm in order to compete with the dotComs looking to capture market share, ramp up sales, and cash out. The Internet has proven its long-term efficacy.

The Census Bureau of the Department of Commerce (www.census.gov/mrts/www/ecomm.html) announced in November, 2006 that the estimate of U.S. retail e-commerce sales for the third quarter of 2006, adjusted for seasonal variation and holiday and trading-day differences, but not for price changes, was $27.5 billion, an increase of 4.5 percent (±1.5%) from the second quarter of 2006. Total retail sales for the third quarter of 2006 were estimated at $991.7 billion, an increase of 0.7 percent (±0.3%) from the second quarter of 2006. The third quarter 2006 e commerce estimate increased 20.9 percent (±5.3%) from the third quarter of 2005 while total retail sales increased 5.1 percent (±0.3%) in the same period. E-commerce sales in the third quarter of 2006 accounted for 2.8 percent of total sales.

Figure 1 shows e-commerce sales as a percent of total retail sales over the period 1999-2006.

FIGURE 1
ESTIMATED QUARTERLY U.S. RETAIL E-COMMERCE SALES AS A PERCENT OF TOTAL QUARTERLY RETAIL SALES:
4TH QUARTER 1999– 3RD QUARTER 2006



By 2007, Forrester (www.forrester.com) predicts nearly 63 million people, two thirds of all U.S. households, will shop online and sales will exceed $217 billion, or 8 per cent of total U.S. retail sales.

Consumer behavior should be the principal determinant of corporate e-commerce strategy. While technology will improve, consumer loyalty, for example, is likely to differ significantly between, say, online booksellers and providers of financial services. Two factors seem critical in predicting behavior and determining an appropriate e-commerce strategy.

First, what is the duration of the relationship between buyer and seller? That is, does the buyer have a relationship with a favorite seller, in which they come to learn about each other, or does the buyer search for a different electronic vendor for each interaction? The former suggests an opportunity for tuning offerings; the latter precludes stable relationships.

Second, what is the scope of goods and services linking buyer and seller? Does the consumer purchase a single good or service, or a bundle of related goods and services? The former suggests the consumer searches for the provider of the best individual goods and services, while the latter suggests a search for the best provider of a collection of goods and services.

Combining these indicates that different companies, in different industries, will find themselves in one or more of four competitive landscapes.

Consumers buying products that can be described as *opportunistic spot* purchases exhibit no loyalty; each purchase may be from a different vendor and there is no one-stop shopping. They may buy a ticket from British Airways one day and United the next, and book their hotels separately.

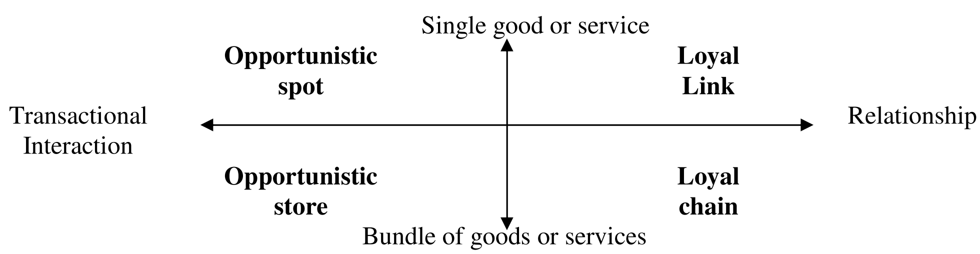
Opportunistic store markets occur when consumers exhibit no loyalty or relationship continuity, to brands or stores. Unlike the spot market, however, they do use intermediaries to construct bundles of goods. They may shop at Sainsbury one day and Tesco another; they may use Amazon.com one day and Buy.com another.

Consumers buying in categories that may be described as *loyal links* exhibit continuity when choosing vendors and service providers, but have no desire to have bundles prepared for them. They may never leave home without their American Express cards, but see no reason for their card issuer to be their insurance provider or financial planner.

Finally, consumers buying in categories that may be described as *loyal chains* will have preferred providers. Additionally, they will count on these providers for a range of tightly coupled offerings. They may work with a financial consultant at Merrill Lynch who helps pick stocks, reminds them to draft a will and arranges guardians for their children, helps find a lawyer and reviews their insurance. The integrated service is so effective they seldom consider switching providers or taking the time to provide these things for themselves.

The structure of these four markets is illustrated in Figure 2.

FIGURE 2
FOUR MARKETS OF E-COMMERCE



Each of these environments has a different competitive feel, requires a different strategy and use of different assets. This is as true in the physical world, where companies are struggling to develop profitable strategies.

Note that no e-commerce company occupies just on one quadrant. There are, for instance, loyal link customers and companies may pursue them with loyal link strategies, but in reality some customers may use a website for spot purchases and others may show great loyalty. The challenge for companies is to guide the consumer to the behavior matching the company's strategy; where this is not possible, companies should match the strategy to the customer's behavior. The approach given here may help managers discover the forces that determine their best strategy.

Opportunistic spot
Competition in opportunistic spot markets is based on price, since there is little loyalty to influence consumers' decisions. This brutal competition is exacerbated by nearly perfect web-based information. Thus, for standardized products such as the latest *Harry Potter*, we observe both Amazon.com and BN.com selling at cost price. Where possible, companies try to soften competition by creating quality differences and ensuring consumers are aware of them. However, this branding must be based on real differences, since with nearly perfect information it is difficult to deceive consumers. There is a limited role for intermediaries. They may reduce risk in conducting transactions, but in most instances, consumers will buy from a set of trusted, well-known manufacturers and service providers.

The internet will be used for supply chain management and logistics to ensure the lowest cost structure and the lowest prices. It will also support access to information on consumers, both current and potential new accounts, to allow the most accurate setting of prices where differential pricing is required. That means no applicant for insurance can be under-charged based on inaccurate risk assessment and no applicant for a credit card can be given too good a deal. In a market where no one can be overcharged without losing the account, there is little margin for error and little opportunity to recover from under-charging anyone. The ability to predict the profitability of a new customer, and so to determine a price to offer, is called predictive pricing.

It is essential to recognize consumers exhibiting opportunistic spot market behavior and to develop an appropriate marketing and pricing strategy. For example, in markets that exhibit this behavior, buying market share is unwise since it can be acquired only temporarily; when prices are raised to cover losses, customers will flee. Similarly, a policy of offering selected items below cost as loss leaders to attract traffic will be unwise, because consumers may easily purchase loss leaders from one site and the rest of their items elsewhere. Only time will tell whether the market for books, CDs or DVDs exhibits this behavior, so it is too early to assess the validity of Amazon.com's customer acquisition strategy or the promotional items of other web retailers.

Opportunistic store
In the absence of consumer loyalty, competition in opportunistic store markets again is based on price; however, it is the pricing of bundles rather than individual items that attracts consumers. Unlike spot markets, there are opportunities for intermediaries to add value, through logistical savings (shipping a box of books), or through assembly or integration (selling a package tour or designing a digital imaging platform where camera, printer and computer work together).

In this scenario, intermediaries enjoy power over manufacturers because consumers select bundles with little attention to components. Thus, when filling an order for paper towels, a grocer will use the product with the highest margins. This pursuit of margins, in the absence of brand loyalty from customers, shifts economic power to intermediaries.

Manufacturers will attempt to use the web for branding, to create consumer awareness of product differences and to weaken intermediaries' power. While it is dangerous to antagonize the existing channel in the opportunistic store scenario by trying to sell directly, branding offers manufacturers the ability to counter some of the power of intermediaries. As in the spot markets, manufacturers will also use the internet to improve efficiency. Intermediaries will use the internet to create branding for their web stores, so weakening price competition. They will use customer information, as manufacturers did in spot markets, for predictive pricing.

As in spot markets, no consumer can consistently be overcharged, so it is difficult to recover from undercharging anyone. While loss leaders can work in these markets, since a customer may fill a basket or obtain a bundle of services, there is little loyalty to assure repeat business; thus, as in spot markets, buying market share is risky since there is no assurance that initial losses can be recouped by overcharging for later purchases.

Of course there may be reasons to buy share in a "scale-intensive" industry where volume is needed to bring down unit costs. Indeed, some aspects of online retailing, such as grocery shopping, may be extremely scale-intensive, which could initially appear to justify buying share. However, without customer loyalty, the danger is that capital will be spent more on training users to accept online shopping and less on training users to accept your online shop.

Loyal link
Competition in loyal link markets is based on retaining the best customers through a careful blend of service and pricing. For the customer, relationship value and pricing improve over time. For example, anecdotal evidence suggests online PC seller Dell has succeeded in creating loyal link behavior in customers, many of whom have bought several generations of computers from Dell.

In fact, no incumbent should ever lose desirable business to an attacker. If a less well-informed competitor were to attempt to persuade a loyal customer to transfer his or her business, the current supplier, with its detailed knowledge, were to choose not to match the new offer, odds are that the new supplier is making an offer that is too low. Successful attempts to get customers to switch in loyal link markets probably represent pricing mistakes by the attacker. Relationship pricing and value work to soften pure price competition in loyal line markets.

Buying market share will work under certain conditions, since it is possible to learn enough to price effectively. However, buying market share is ineffective without loyalty, as online brokerage firms are discovering; so it is critical to assess whether the company is operating in an opportunistic spot or loyal link market.

Using loss leaders in a link market will be unrewarding; offering only banking below cost to gain credit card business is unlikely to succeed in a link market, where customers will pick the best hotel and the best air service, or the best online banking and the best credit offers, independently.

Systems will be used for branding and attracting customers and to support relationship pricing and relationship service to keep the best accounts. These markets may appear to have only a limited role for intermediaries; however, intermediaries enjoy an advantage in controlling customer information and may end up owning customer relationships.

Loyal chain

Competition in loyal chain markets, as in loyal link markets, is based on attracting and retaining the best customers and, as in loyal link, relationship value and relationship pricing improve over time. However, in chain markets, which are composed of tightly coupled sets of links, pricing to individual customers and the value they receive are determined by a bundle of goods and services.

Taking the earlier example of the digital-imaging platform, it may not be necessary to replace all components when upgrading. However, if buying a higher-resolution camera and a faster laptop, it is helpful to determine if the new computer and the old printer are compatible, otherwise the customer may experience an unpleasant surprise if picking and choosing components in a spot or link fashion. If the previous chain supplier is used to update the components, unpleasant surprises are likely to be avoided, since his vendor can be relied upon to provide components that are compatible with those bought before. Evidence suggests Amazon has succeeded in encouraging a degree of loyal chain behavior from its best customers, who value the book recommendations made to repeat buyers.

Loyal chain markets represent a power shift from producers to intermediaries. Online intermediaries can reconfigure the virtual store to show loyal purchasers the brands they wish to see; customers without a preference can be shown brands that earn the highest margins. Indeed, it is a small step from this relationship-based presentation to demanding rebates from manufacturers to ensure that their offerings will be shown to customers with no brand preference. While physical stores charge a fee for preferred locations such as displays near checkouts, they cannot reconfigure the store for each customer.

This shift in online power greatly increases the importance of branding for manufacturers, because a powerful brand is the best counter to pressure from retailers. It also suggests that, to the extent permitted by legislators, manufacturers should form consortia for web retailing. This would avoid loss of control to retailers with significant information advantage. However, a broad consortium is needed since online markets reward scope and breadth.

Intermediaries may effectively buy market share through pricing low, enabling them to pursue informed relationship pricing over time. Likewise, they may use loss leaders to increase traffic through their website, selling other items to consumers interested in a complete bundle.

Improving your Web site

Here are five things you can do to maximize your Internet presence.

1. *Continually update your Web site.* This step is important to bring visitors back again and again, Also, search engines will check your site regularly and if the pages don't change, it can hurt your ranking in Web searches.
2. *Add a Web log, or blog, to your Web site.* Not only does it help solve the problem of how to update your site, it can also draw more people to your site. Helpful content can help you gain return visitors. Plus, nothing can match a blog for keyword count, so it helps your search engine standing.
3. *Keep it simple.* One of the biggest mistakes Web beginners make is creating a site that is too complicated. Forget the animations and dynamic content like stock tickers that increase the time it takes for your pages to open on a visitor's computer. In this same category, buy your own domain name so that your Web address will be easy to remember.
4. *Be responsive to visitors.* If you offer a "contact us" page on your site, make sure someone responds promptly to the e-mails and phone calls that result. Otherwise, your visitor will feel like the woman who walks into a brick-and-mortar store and can't find a sales clerk to help her.
5. *Get help.* Seek professional help if you are not an expert at building or optimizing your Web site.

SUMMARY AND OBSERVATIONS

Three observations are true across all four competitive landscapes:

- Only difference between brands, and consumer awareness of the brands, can blunt pure price competition in an efficient market.
- Cost control is important: efficient access to information makes it almost impossible to overcharge.
- As online information makes markets more efficient, predictive pricing will be used in spot and store markets, and relationship pricing in link and chain markets. Pricing strategies will be limited by adverse publicity that companies receive from charging different prices for the same goods.

Other conclusions follow from these:

- The role of buying market share will vary. In opportunistic markets, buyers will leave when you raise prices.
- Similarly, the roles of loss leaders will vary. In spot and link markets, consumers will pick off loss leaders and do the rest of their shopping elsewhere. Once customer traffic has been acquired, there is a chance to sell extra items.

FUTURE CHANGES IN RETAILING

Three exciting trends in retailing—the growth of multi-channel retailing, the increasing impact of technology, the dramatic changes in the way we shop—are likely to lead to many changes for retailers and consumers in the future.

Multichannel Retailing

The retailing formats described previously in this course represent an exciting menu of choices for creating customer value in the marketplace. Each format allows retailers to offer unique benefits and meet particular needs of various customer groups. While each format has many successful applications, retailers in the future are likely to combine many of the formats to offer a broader spectrum of benefits and experiences. These multichannel retailers will utilize and integrate a combination of traditional store formats and nonstore formats such as catalogs, television, and online retailing. Barnes and Noble, for example, created Barnesandnoble.com to compete with Amazon.com. Similarly, Office Depot has integrated its store, catalog, and Internet operations.

Integrated channels can make shopping simpler and more convenient. A consumer can research choices online or in a catalog and then make a purchase online, over the telephone, or at the closest store. In addition, the use of multiple channels allows retailers to reach a broader profile of customers. While online retailing may cannibalize catalog business to some degree, a Web transaction costs about half as much to process as a catalog order. Multichannel retailers also benefit from the synergy of sharing information among the different channel operations. Online retailers, for example, have recognized that the Internet is more of a transactional medium than a relationship-building medium and are working to find ways to complement traditional customer interactions.

The Impact of Technology

One of the most significant changes retailers may face in the future is the way consumers pay for purchases. Today, one of the most convenient and popular methods of payment is a credit card. Credit cards, however, are likely to be replaced by smart cards, which look the same as credit cards but store information on computer chips instead of magnetic strips. They will hold information about bank accounts and amounts of available funds, and they will contain customer purchase information such as airline seat preferences and clothing sizes. The idea is already popular in Europe and Asia where more than 33 million smart cards are in use. Benefits for consumers include faster service—a smart card transaction is much faster than having a check or credit card approved—and they are a convenient method of paying for small-dollar-amount transactions. Merchants will also benefit because they will save the 5 to 7 percent usually paid to credit card companies or lost in handling. Currently the absence of processing equipment is slowing the use of smart cards in the United States.

Changing Shopping Behavior

In recent years consumers have become precision shoppers. The number of stores consumers visit and the number of times they visit those stores each month is declining. Shoppers are demanding convenient hours and locations, outstanding service, and reasonable prices from retailers. As a result, familiar forms of retailers such as supermarkets, travel agencies, and car dealerships are likely to change or be replaced by new types of retailers. Byerly's, a supermarket chain expanding from Minneapolis to Chicago, offers rushed shoppers a wide variety of premium ready-to-eat entrees, in a carpeted store. TravelFest Superstores in Austin, Texas, offer one-stop shopping for travelers. Visa applications, traveler's checks, luggage, newspapers from around the world, and traditional tickets and reservations are available in the stores from 9 A.M. to 11 P.M. Even car dealers are changing. CarMax offers no-haggle pricing, an inventory of 500 to 1,000 cars, written offers on trade-in vehicles, guarantees and extended warranties, financing, and one-hour transactions if a car is purchased.

Another response to the changes in consumers' preferences is a form of co-branding in which two retailers share a location. For example, McDonald's has developed partnerships with Wal-Mart, Home Depot, Amoco, and Chevron that will lead to thousands of satellite outlets in retail stores and gas stations. Starbucks Coffee Co. has opened cafes in more than 100 Barnes and Noble bookstores. And KFC, which attracts a strong dinner crowd, now also includes Taco Bell, which is stronger in the lunch market, at 800 of its stores. Retailers hope that consumers will appreciate the convenience of the new locations.

GLOSSARY

Advertising any paid form of nonpersonal presentation and of promotion of ideas, goods or services by an identified sponsor.

Balance sheet a financial listing of assets, liabilities and equities at a specific time or date.

Banner ad a graphical web advertising unit, typically measuring 468 pixels wide and 60 pixels tall (i.e. 468x60).

Bantam (convenience-type) store a store offering a limited selection of brand-name merchandise in a convenient location and with typically long hours, operating seven days a week.

Basic stock list a list of items to be carried in stock, classified as to size and other factors; the minimum quantities to have on hand at any time adjusted to seasonal requirements; and the quantity to order when reordering takes place.

Blind check preparing a list of incoming merchandise by quantities, which is later checked against the invoice covering the particular shipment.

Branch (or suburban) Store a department store usually in a planned shopping center or suburban location owned by another ("parent" or "flagship") downtown store. Once almost always in the same metropolitan area as the downtown store, they are now more widely dispersed.

Business policy a rule of conduct, either written or implied, under which a firm operates. A policy establishes a definite and uniform course of action to be followed under substantially similar and recurrent circumstances.

Central buying that type of buying which implies that a large part of the authority over buying lies outside the retail store, as in many chain organizations where purchasing is done by headquarters executives.

Chain store system an organization of two or more stores of similar type which are centrally owned and managed. A chain store is simply one link or unit in a chain store system.

Classification control (classification merchandising) that form of dollar merchandise control based on classifications of related types of merchandise, usually within departments.

Consignment buying that buying in which title to the goods "bought" remains with the vendor, relieving the retailer of such risks as price decline and obsolescence.

Consolidated delivery system a system formed and operated by a group of individuals who perform delivery service for a number of retailers on a fee basis.

Consumer premium a tie-in arrangement in which a product (the premium) not part of a seller’s regular sales assortment is sold at a discount or given away in return for purchases made in the regular sales assortment.

Cooperative advertising sharing of responsibility and cost of advertising - typically 50 percent each-by the manufacturer and the retailer. Often the manufacturer sets a maximum of 5 percent of the retailer's purchases.

Contribution plan a plan under which only the escapable or direct expenses are charged to departments in departmentalized stores and the indirect expenses placed in a general bracket for the store as a whole.

CPM cost per thousand impressions. The CPM model refers to advertising bought on the basis of impression. This is in contrast to the various types of pay-for-performance advertising, whereby payment is only triggered by a mutually agreed upon activity (i.e. click-through, registration, sale). The total price paid in a CPM deal is calculated by multiplying the CPM rate by the number of CPM units. For example, one million impressions at $10 CPM equals a $10,000 total price. 1,000,000 / 1,000 = 1,000 units; 1,000 units X $10 CPM = $10,000 total price. The amount paid per impression is calculated by dividing the CPM by 1000. For example, a $10 CPM equals $.01 per impression. $10 CPM / 1000 impressions = $.01 per impression

Cycle billing that practice under which the names in a store's credit files are divided systematically and statements are sent to a different group on a fixed billing date within the month.

Dating with respect to invoices covering the purchase of goods; this term "refers to the time in which the specified amount of discount may be taken and to the time at which payment for the merchandise will become due."

Department store a store which handles a wide variety of lines of merchandise, such as women s ready-to-wear and accessories, men's and boys' wear, piece goods, small wares, and home furnishings, and which is organized into separate departments for purposes of promotion, service, accounting, and control.

Departmentalizing division of merchandise handled into groups of related items with each group known as a department and operated more or less as a separate unit.

Direct check checking the quantity of incoming merchandise directly against the vendor's invoice.

Direct selling telephone, mail, or personal solicitation of the order at the customer's residence or other nonstore location.

Discount any reduction in the list or quoted price of merchandise that is allowed the purchaser by the seller. The more common discounts are quantity, trade, seasonal, advertising, and cash.

Discount house (or store) a departmentalized store, usually located in a low-rent district in a growing suburb and featuring low prices, long hours suited to customers' convenience, adequate parking, and promotional activities, among others.

Dollar control that form of merchandise control in which records are maintained in terms of retail prices rather than physical units.

EDP electronic data processing, involving assembling and storing data, processing them, and printing the results.

E-business the use of electronic platforms—intranets, extranets, and the Internet—-to conduct a company's business.

E-commerce buying and selling processes supported by electronic means, primarily the Internet.

E-marketing the marketing side of ecommerce—company efforts to communicate about, promote, and sell products and services over the Internet.

E-selling utilizing e-mail to generate leads.

E-tailer online retailer. It is an example of nonstore retailers.

Expense budget a series of estimates or a forecast in dollars of the various expenses a store (or a department) will incur in a budgeted period.

Franchising An arrangement between a franchiser (grantor) and the franchisee (i.e., a retailer) under which the franchiser's product(s) or services, including productive (usually) and marketing knowledge-names and practice-are provided the franchisee for a specific consideration.

Group buying joint purchasing by a group of buyers representing noncompeting stores.

Hand-to-mouth buying purchases of small amounts at frequent intervals to meet immediate needs and to reduce risks of price reductions and fashion changes.

Independent store typically, a small, nonintegrated retail establishment lacking any appreciable degree of specialization in management or employees, and owned and operated as an individual unit.

Internet marketing A form of direct marketing; also called *online marketing*. It requires that both the retailer and the consumer have the computer and modem.

Layout the arrangement of equipment and fixtures, merchandise, selling and sales-supporting departments, displays and checkout stands-where needed-in proper relationship to each other and in accordance with a definite plan.

Leader merchandising a practice under which retailers sell certain items with a markup less than normal. Markup on lost leaders is less than average cost (total expenses) of doing business.

LIFO a method of inventory valuation based on the last-in, first-out concept and designed to minimize the effects of inflation on retailers- profits.

Markdown any reduction in the retail price of an item after the first such price has been placed upon it.

Markup the amount added to the cost price to arrive at the retail price. The initial markup (also called original markup and markon) is the difference between the cost and the first retail price of the goods. An additional markup is the amount by which existing retail prices are raised.

Megalopolis a joining together of metropolitan areas forming a single stretch of considerable length including both urban and suburban areas.

Merchandise budget (or plan) a forecast of specified merchandise activities for a defined period of time, usually six months. It commonly includes mainly planned sales, stocks, reductions, purchases, and gross margin.

Merchandise management accounting that form of accounting (really a method of merchandising) that seeks, among other objectives, to improve dollar profit (rather than percentage profit) through better determination and interpretation of costs by individual items.

Metropolitan area a county or group of contiguous counties which contains at least one city of 50,000 inhabitants or more or twin cities with a combined population of at least 50,000.

Model stock that stock, measured in dollars and properly balanced as to sizes, types, and prices of items, designed to meet sales expectations for a specific period.

Mutual (or cooperative) delivery system that system in which a separate company is formed by cooperating retailers and whose costs are shared according to some agreed upon basis.

National (manufacturer's) brand a word, mark, symbols, device, or a combination thereof, used by a manufacturer to identify a product or service.

Online advertising advertising that appears while consumers are surfing the Web, including banner and ticker ads, interstitials, skyscrapers, and other forms.

One-price Policy charging the same price for an item to all customers of the same class who purchase in comparable quantities, under similar conditions.

Open-to-buy that amount, in terms of retail prices or at cost, which a buyer is open to receive into stock during a certain period according to his budget or plan.

Operating (income, profit and loss) statement a financial summary of the results of operations conducted during a specific period of time, usually a year.

POM (purchase order management) system a computer system that prints the buyer's order, checks calculations and discount terms, and upon receipt of goods issues price tickets and authorization for vendor payment.

Pop-up ad an ad that displays in a new browser window.

Personal selling (salesmanship) that form of selling or sales promotion involving direct personal contact of the seller or his or her representative with the buyer.

Physical inventory an actual counting and listing of the goods on hand at a particular time, including the cost or retail price of each item.

Prepacking (prepackaging) placing goods in packages by the manufacturer containing the same number of units commonly bought by the retailer's customers.

Preretailing the practice of placing the retail price of the items being bought on the store's copies of the purchase order to facilitate marking and movement of goods to selling floors.

Price-line control that form of dollar control based on price lines, that is, the particular prices at which assortments of merchandise are offered for sale.

Private (middleman's) brand a word, mark, symbols, device, or a combination thereof, used by a middleman (i.e., retailer or wholesaler) to identify a product or service.

Rack lobber a wholesaler of nonfood items who arranges with the management's of supermarkets to stock and maintain an assortment of goods in a fixture or rack in a particular space in the store.

Rebates a refund of a fixed amount for a certain amount of time.

Resale price maintenance ("fair trade") a former legal arrangement under which the manufacturer of a branded product in open competition established the price, or minimum price, at which such product could be resold to the consumer.

Resident buying office a buying office located in a central market to assist retail store buyers to purchase more effectively. There are two main types:(1) the independent office-a private company with an ownership different from that of the stores it serves; and (2) the store-owned office, owned outright by a single store or a group of stores.

Retail (consumer) credit present purchasing power based upon the confidence of the seller in the buyer's ability to pay bills as they mature.

Retail inventory method of accounting a method of accounting designed to permit control of merchandise in terms of retail prices and to enable approximate profits to be calculated at desired periods without the necessity of taking a physical inventory. It requires that both inventory and purchase figures be maintained at both cost and retail prices.

Retail research the organized search for, and the analysis of, facts related to problems in the field of retailing, including recommendations by the researcher designed to solve the problem being investigated and the follow-up to determine results of their adoption.

Retailing All activities required to market consumer goods and services to ultimate consumers.

Revolving credit an arrangement under which retailers fix the credit limit of customer, permitting them to make full use of this credit limit at all times, and give customers the choice of payment within 30 days or on an installment basis.

Robinson-Patman Act an act passed by Congress in 1936 designed to prevent discrimination in prices among buyers of commodities of "like grade and quality" by sellers in interstate trade.

Sales transaction system the procedures, methods, and devices established by a store to handle various types of sales such as cash and credit.

Self-selection display and arrangement of merchandise so customers can make selections without the aid of a salesperson, but requiring assistance to complete the sale.

Sell-service display and arrangement of merchandise so that customers can make their own selections, but then must take goods to a checkout stand where payments are made and purchases "sacked."

Shoplifting stealing merchandise while posing as a customer or other legitimate visitor to a store.

Shopping center commonly an integrated development under single ownership, with coordinated and complete shopping facilities, and with adequate parking space, in which various stores are leased to retailers and in which retailers participate in joint activities. May be on a planned or controlled basis.

Stock keeping unit (SKU) a specific item that a reseller stocks (for example, a 5,000-watt Dayton professional duty, portable, gasoline power generator is an SKU).

Suggestion selling that form of personal salesmanship in which merchandise-often related to that already purchased-is suggested by the sales person and bought by the customer.

Supermarket a departmentalized store having annual sales of $1 million or more in a variety of merchandise, and in which the sale of food, much of it on a self-service basis, plays the major role.

Stock-sales ratio the relationship that exists between the stock on hand at the beginning of a period (usually a month) in terms of retail prices and the sales for that month. Sometimes, an end-of-the-month stock figure is used.

Stock turnover (rate of stockturn) the number of times during a given period—usually a year—that the average amount of stock on hand is sold.

Telemarketing systematic and continuous program of communicating with customers and prospects via telephone and/or other person-to-person electronic media.

Testing bureau a store-owned or an independent commercial bureau established mainly to test merchandise for fading, shrinking, wearing ability, size uniformity, and comparison with offerings of other stores, and to devise specifications to be used in making purchases by a store's buyers.

Unfair Sales Acts (Unfair Trade Practices Acts) state laws designed to reduce price cutting by making it illegal for retailers to sell at prices that do not cover their costs of operation or requiring the addition of a specified percentage of markup to the invoice cost of their merchandise.

Unit control merchandise control with records in terms of physical units rather than retail prices.

Unit price the price per standard unit of weight or measure (ounce, pound, pint, quart). Under unit pricing, the unit price, together with the package price, is displayed or marked on goods sold in odd-sized packages.

UPC (Universal Product Code) a set of computer-readable markings placed on products to identify item, brand, and package size. Used for fully automated checkout and perpetual inventory record.

Web communities Web sites upon which members can congregate online and exchange views on issues of common interest.

Webcasting the automatic downloading of customized information of interest to recipient's PCs, affording an attractive channel for delivering internet advertising or other information content.

Web site traffic the amount of visitors and visits a Web site receives.

Wholesaler a merchant middleman who typically buys from manufacturers in relatively large quantities and sells to retailers in substantially smaller quantities.