

Purchasing Systems

Merchandise Buying

- What to buy ?
- When to buy ?
- How much to buy ?
- Where and from whom to buy ?

Four Steps :

1. Identifying the sources of supply
2. Contacting the sources of supply
3. Evaluating the sources of supply
4. Negotiating with sources of supply
(Global source and legal issues)

Discounts:

- Trade discount
- Chain discount (no. of different discounts taken sequentially)
- Quantity discount
- Seasonal discount
- Cash discount

Foreign Currency Fluctuations

Traffic

Foreign Trade Loan

Cost of carrying

Transportation



Buying Procurement

- Category Captain

Develops a category and furthers relationship

CC is the supplier who aids the retailer in developing a category

Aerated drinks

Ready-to-cook meals

Health drinks

Introduction

- Purchasing system helps the purchaser and merchandise planner to determine the quantity of merchandise to be purchased.
- Retailers use 2 types of purchasing systems:
 - Fashion Merchandise Purchasing System
 - Staple Merchandise Purchasing System

Fashion Merchandise Purchasing System

- Merchandise Budget Plan :

It helps determine the amount of money to be spent every month on a specific fashion merchandise category.

It helps the merchandise planner plan to purchase a specific category of merchandise that is to be delivered during a specific month.

- Open-to-buy :

It helps the merchandise planner to keep track of the merchandise flow in real time.

Merchandise Budget Plan

- Merchandise budget plan is based on:
 - Sales Forecast
 - Inventory Turnover
 - Gross Margin Return on Investment (GMROI)

It helps the category manager identify if the merchandise is:

- Selling well and is to be replenished
- Not selling well and is to be marked down, and repositioned.

Merchandise Budget Plan

Factors:

- ✓ Monthly sales percentage distribution to season
- ✓ Monthly sales
- ✓ Monthly reductions percentage distribution to season
- ✓ Beginning of the month inventory to sales ratio
- ✓ Inventory at the beginning of the month
- ✓ Inventory at the end of the month
- ✓ Monthly additions to stocks

- Variety and assortment in sync with goals and objectives
- Judicious mix
- Trade-off between types, categories, assortment and overall level / value of inventory
- Coordination – Purchase, Warehouse, Finance, Store operations
- Apparently, easy, but in reality, very difficult-in a hypermarket, there are thousands of items, sourced from hundreds of vendors (including imports)
- So, forecast of requirement to be both realistic and accurate
- Turnover ratio should be favourable both to retailer and customer. Otherwise, sales and gross margin will get affected.

Buying Process by Categories

- Category Management
by Category Manager

Various categories:

- Destination categories : a good destination for customer - apparel
(RPG's giant hypermarket – superior service, better value)
- Routine categories : neighborhood retail store (range of products, lower services) – toothpaste, soap, as a matter of habit
- Seasonal categories – bought occasionally (crackers, umbrella, raincoats)
- Convenience category – Bread, Eggs (Neighborhood stores)

Contd....

Category assessment

Retailer conducts analysis of

- sales,
- profits,
- RoA,
- RoI

category-wise

Contd....

➤ Category Scorecard –

- To measure performance of the category.
 - Bottom line
 - Top line

(Gross Margin Return on Investment) GMROI

(Rs) $GM \div \text{Average Inventory at Cost}$

➤ Category Strategy

Marketing categories for the strategy



Demand Chain

Store traffic

Profit margin

Cost and excitement

Store image

Supply Chain

Flow of merchandise

Cost of transaction

Contd....

➤ Category Tactics

Strategy → tactics

that ensures the smooth implementation of strategies relating to assortment, pricing, promotions

➤ Implementation

Regular monitoring of each of the above steps

(each step can create profit)

The Buying Organization

Several levels – 4/5/6

- Merchandise Group – VPs – Women’s, Men’s, Kid’s, Cosmetics
- Each VP – several deptts. – headed by Divisional Manager
 - Men’s formal, Cosmetics, Accessories
- Classification – By Age
- Categories – Sports, Casuals, Swim wear
- Stock Keeping Unit (SKU) -
 - Boy’s Jeans
 - Size
 - Deep Blue Color
 - Relaxed fit

- After deciding the merchandise by categories, financial implications of merchandise management is assessed

GMROI

- Inventory TO = Net Sales ÷ Average inventory at retail price

or

Cost of Goods sold ÷ Average Inventory (at cost)

$$\text{Average Inventory} = (m_1 + m_2 + m_3 + m_4 + \dots + m_n) / n$$

Inventories for different months
Again either average/m or EoM

Total no. of months

Advantages of rapid Inventory TO

- Volume of sales ↑
- Risk of obsolescence ↓
- Salesmen's morale ↑
- Money flow – more purchases ↑
- Operating expenditure ↓

Disadvantages

- Loss of customer
- Small quantity purchase – CoGS ↑
- Operating expenditure ↑

Sales Forecasting

- Should be based on category lifecycles
- Used for predicting effective saleability of different product categories over a period of time.

Sales

Low

Steep increase

Stagnant

Full

Stage of Lifecycle

Introduction

Growth

Maturity

Decline

Varies significantly
from category to
category



Fashion, staple,
seasonal
merchandise

Cost associated with global sourcing:

- Country of origin
- FC fluctuation
- Tariffs
- FT Z
- Cost of carrying
- Transportation cost
 - OGL – Restricted (or negative list)
SIL-import duty

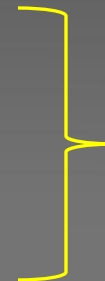
Legal Issues

Taxes

- Sales tax
- Excise
- Octroi

Vendor Performance

- Respect and cooperation
- Timely supply
- Track record



To avoid stock-out situation

Whether to stock

- ❖ *International
- ❖ *National
- ❖ No-brand



Products ?

* *Promotional expenses - less*

Licensed Brands

1) Character Licensing

This includes cartoon characters, movie characters and fictional images.

2) Corporate Licensing

This includes brand names and trademarks of corporations, such as IBM, Coca-cola.

3) Designer Name Licensing

This is the type of licensing used by designers such as Pierre Cardin, YSL, Ralph Lauren, Donna Karan, etc. These designers lend their names to products not necessarily manufactured or designed by them.

Contd...

4) Celebrity Name Licensing

In this case, celebrities license their names to various products. Closer home, an example of such licensing may be the various brands of perfumes licensed by celebrities like Lata Mangeshkar, Zeenat Aman, etc.

5) Nostalgia Licensing

This form of licensing includes licensing of the names of legends such as Marilyn Monroe, Lady Diana, etc.

The Private Label Leaders

Pvt. Labels: Own (retailer's brand)

Retailer	% of Private label
Aldi	95
Lidl	80
Sainsbury's	60
Tesco	40
Wal-Mart	40
Carrefour	33

Wal-Mart (China)

- Procured goods locally, and opened procurement centers and distribution centers across the country.
- Sent its managers to suppliers' factories and also maintained an extranet site to share sales information and consumers' expectations from the suppliers.
- Designed the packaging.
- In the US and rest of the world, where Wal-Mart operated, its success was attributed to its highly effective supply chain and logistics management

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- But in China, Wal-Mart could not reap the benefits attributed to the supply chain, as it was not well developed and was highly fragmented.
- Short lead time, sudden price reduction, and other practices like squeezing the suppliers to maintain low prices, forced several suppliers to close down
- This led first to reduced efficiency of SCM, and later ,to severely damaged SCM

Nordstrom's Perpetual Inventory System

Inventory Management – A Key to Retailing Success

- In the highly competitive US retailing industry, **efficient supply chain management** practices are not considered just a tool for deriving competitive advantage. Rather, putting in place a structure to manage the entire supply chain as effectively as possible as a key for survival.
- **'Best in class'** customer service.
- **Computerized systems** for managing inventory.
- **Perpetual** inventory management.
- **Employees** need to be suitably **empowered**.
- Carrying adequate inventories at the stores.
- Efficient inventory and merchandise management systems.

Taking the First Step

- **Modernizing** inventory management practices in the form of a new Windows NT based inventory management system.
- Nordstrom's CFO, John Goesling, "It is too early to measure the full impact of the system, but we like what we have seen thus far. We are going to continue to invest in **merchandising information systems.**"
- 2000 – Largest advertising campaign 'Reinvent Yourself' to back a radically different, new business decision.

Setting Things Right – Implementing the New System

Nordstrom tried to improve the productivity front by focusing on the following aspects:

- Inventory management
- Inventory allocation
- In-stock position
- Systems leverage
- Expense leverage

Thank you