



# Logistics Takeaways from Overview of the Retail Industry

## Why Retail Exists/Functions of Retail

Retailers break bulk as near to consumers as they can get – containers or trailers at a warehouse and pallets or cartons at a store. This reduces their expense costs and keeps prices lower for consumers. Breaking bulk means a consumer can buy one of an item rather than a case. They provide assortment or choice, so the consumer can get the variant that most appeals to them.

This is the foundation that drives the structure and operations of supply chains, the entities in the chain and supply chain management best practice.

As a breed, retailers are the best cost managers on the planet.

## Category Management Verses Merchandise Management

Category management retailers sell most products year-round. They have life cycles that often last years. These are the products that consumers buy most often, so demand forecasting can use statistical models to get more accurate forecasts of demand. Obsolescence is a smaller less costly problem than for merchandise management retailers. Sales peaks and troughs in percentage up or down terms are smaller making goods flows through the year easier to manage. Sales volumes are generally much higher per store than in merchandise management retailers, but gross margins in percentage terms are lower. Stock builds (smaller) occur in anticipation of peaks and key promotions. Clearance only occurs when a line is discontinued.

Merchandise management retailers sell in seasons – spring/summer and autumn(fall)/winter. Some also have sub-seasons, such as early spring, late spring and summer, when the product mix changes. End of season is effectively end of life for about 70% of SKUs. Merchandise management retailers have big clearance sales in January and July. Many retailers in this segment have a midseason sale as well in both seasons. Merchandise flow through the supply chain is much lumpier. This affects demand for pallet (storage) locations in warehouse with bigger swings between full and empty than is the case for category management retailers. This segment often needs external temporary warehouse space for the Christmas period. Consumer returns (especially online returned to store) are much higher in this segment as a percentage of sales than in category management retailers (or departments in a mixed environment).

Why do you care? Because the difference between category management and merchandise management retailers will significantly affect the costings for sales proposals and the month-by-month demand on your storage capacity. Also, understanding the key costs you need to be aware of in the customer's business, will help you defend your pricing as long as you can explain how you can ease some of these challenges.



Look at a retailer's web site or visit a store or two to determine which segment they are really in. Use this insight to drive your account research.

## **Store Formats**

This class also describes 6 major store formats and common industry floor layouts. The 6 formats, including online, will include information on category management versus merchandise management, the size of the assortments (number of SKUs to store/handle), key metrics like gross margin percent and expenses percent to sales. There is an associated Resources download that gives you tables of key performance indicators by retail segment. If you are researching a customer that does not file publicly available accounts, you can easily find out how many stores they have and use these numbers to estimate their sales, etc., so you can decide how much time to focus on this account.

## **Retail Trends**

The main retail trends are described in detail in this class. Why do you care? Identify the trends that are most relevant to your account and then research the higher priority ones as potential areas where you might be able to improve their performance and provide a financial or other major benefit.

## **Other Classes**

You can learn a lot more about reading financial numbers without needing accounting knowledge in Introduction to Retail Financials. You can also learn about analysing key performance indicators in Analyzing Retail Key Performance Indicators. Buying and Merchandising Overview will help you understand more about the retailer's challenges in managing inventory.

