



Retail Background

Why Retail Exists

Retail businesses perform several valuable functions for the consumer:

- They break bulk, so that a consumer can buy a tube of toothpaste rather than a whole case. (The exception to this is wholesale clubs, such as Costco, where the consumer may prefer to buy “by the case”).
- They reduce cost by transporting product through the supply chain in the most economic manner, e.g., containers or trailers to the distribution centers and pallets or cases to the stores.
- They provide selection or choice in one convenient location with guidance for the consumer to help them decide which products to select.
- They provide pre- and after-sales service and convenience.

Retailing is a large and diverse industry. It represents a major percentage of gross national products in most countries worldwide and is a major source of employment.

According to the National Retail Federation 9.8m Americans work directly for retailers and, in total, about 42m people work in the retail industry, which includes consumer goods manufacturers, logistics companies and others. This extended retail ecosystem accounts for about 25% of all US employment and the same is likely to be true for many other developed countries.

Retailers By Core Processes

Retailing is organized into segments or formats. This course is concerned with retailers that sell goods to consumers rather than restaurants, clubs, hotels, car dealers and the like, which many Governments include in their statistics on the retail sector.

One way of differentiating retailers is by the buying and merchandising practices. Retail buying offices use one of two major disciplines to manage their buying and inventory management processes. There are referred to as category management and merchandise management respectively.

Category management is a series of processes applied to merchandise or goods that are mostly sold year-round. The sales pattern may have seasonal peaks and troughs, but the product sells 12 months a year. Category management retailers include all grocers from whichever segment, home improvement or DIY stores, electrical retailers, over the counter drug stores, pharmacies and pound or dollar stores.

Merchandise management retailers sell products that have a season. In this context, it means that the product goes on sale at the start of the season and is taken off sale at the end. A season could be spring/summer or early spring, or just Valentine's, for example. Merchandise management is the series of processes used to manage seasonal goods or short life goods. Merchandise



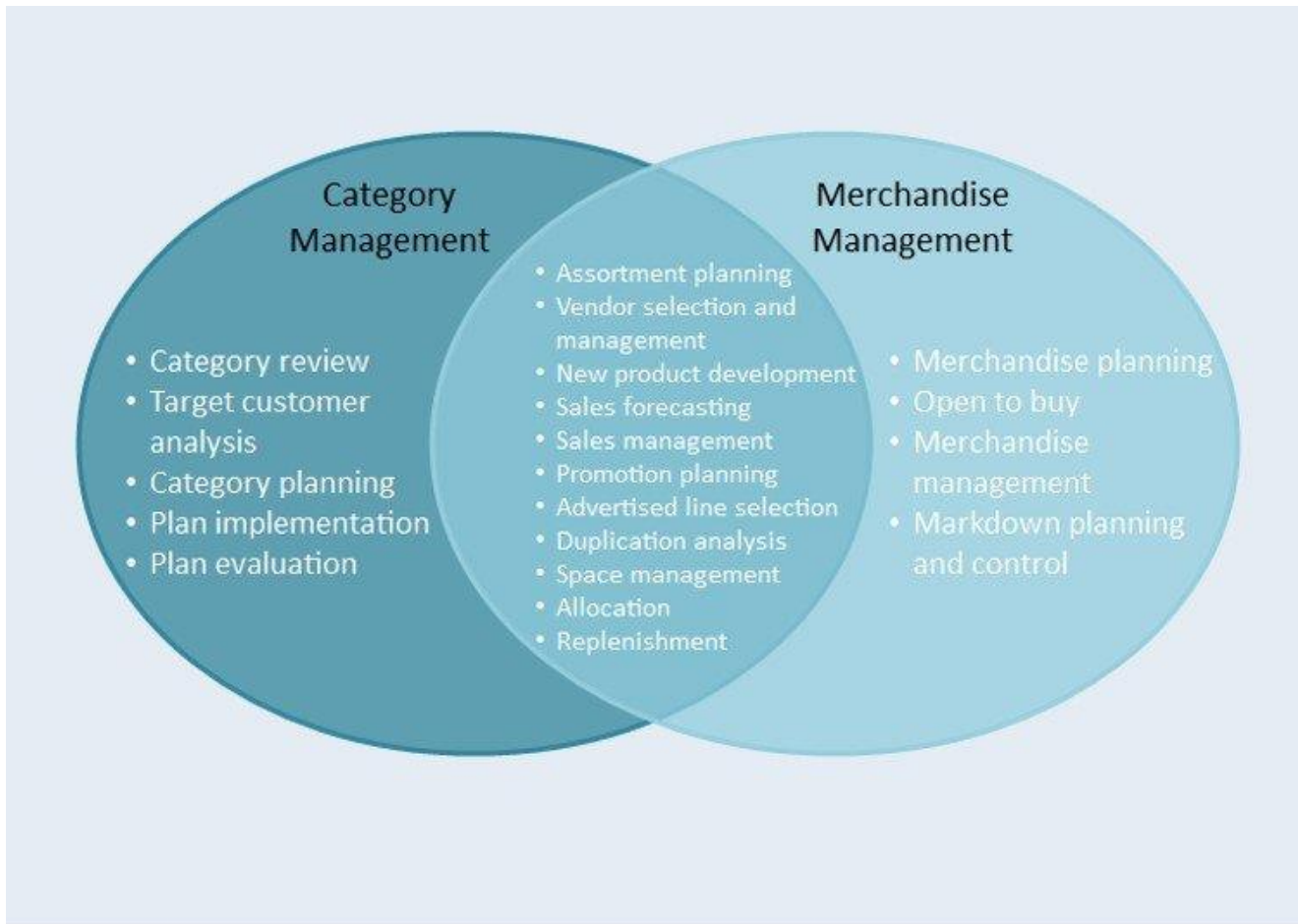
management retailers include fashion stores, department stores and many large and small format stores that sell seasonal items.

The chart below summarizes the key differences between the two.

Merchandise Management	Category Management
<ul style="list-style-type: none"> • Around 70% of products change every season • Seasons may vary (between 26 and 6 weeks) • Higher risk/fashion merchandise • High markdown as % sales 	<ul style="list-style-type: none"> • Most products sell year round • May change around 10% of products a year • Low risk merchandise • Low markdown as % sales
<ul style="list-style-type: none"> • Department stores • Fashion retailers <ul style="list-style-type: none"> - apparel, kitchenware, toys, DVDs, etc 	<ul style="list-style-type: none"> • Grocery (Supermarket, Convenience, etc) • DIY / home improvement centers • Chain drug stores • Electrical
<ul style="list-style-type: none"> • Merchandise planning, same topics as CP plus: <ul style="list-style-type: none"> - open to buy, sell through - breaking and terminal stocks 	<ul style="list-style-type: none"> • Category Planning (CP) addresses: <ul style="list-style-type: none"> - sales, stocks, listing, de-listing - promotion calendar, margins
Common measure: <ul style="list-style-type: none"> • Inventory turn, stock-turn or just turn 	Common measure: <ul style="list-style-type: none"> • Space based (sales per foot, GMROS etc)

There are some processes that are common between category management and merchandise management and some that are quite different. This next chart summaries the commonalities and differences.





There are some retailers that, because of the mix of products they sell, they run both sets of processes, but most run one or the other. Which one depends on which discipline has the greatest volume of sales.

When looking at retailers, keep these distinctions in mind as they affect the way the retailer thinks about all things related to buying and inventory management.

If retailers are category management based, this can affect Store Operations too. Category management retailers often have store driven replenishment processes. Merchandise management retailers tend to use replenishment processes entirely controlled by headquarters merchandising teams.