Retail Management

Sessions 11-12

Convenience, comparison and specialty shopping and other aspects in location

When consumers are looking for convenience products like FMCG products they are primarily concerned with minimizing their effort to get the product or service they want. They are relatively insensitive to price and indifferent about which brands to buy. Thus, they don't spend much time evaluating different brands or retailers; they simply want to make the purchase as quickly and easily as possible. Examples of convenience shopping situations having a cup of tea on the way to work, buying petrol for your bike, or buying bread for breakfast in the morning.

Retailers targeting customers involved in convenience shopping, such as kirana shops and petrol bunks, usually locate their stores close to where their customers are and make it easy for them to access the location, park, and find what they want. Thus, convenience stores are generally located in neighborhood areas and freestanding locations. Restaurants and cafes also cater to convenience shoppers and thus select locations with easy access, parking, and visibility. Convenience also plays an important role for supermarkets and discount stores. Generally, shoppers at these stores are not particularly brand- or store-loyal and do not find shopping in these stores enjoyable. Thus, these stores typically are also located in neighborhood and freestanding locations.

Consumers involved in **comparison shopping** are more involved in the purchase there is a certain level of preparation or assumption on what the consumer intends to buy as opposed to a convenience shopping situation but they do not always have a well-developed preference for a brand or model. However, the purchase decisions are more important to them, so they seek information and are willing to expend effort to compare alternatives. Consumers typically engage in this type of shopping behavior when buying home decor, electronic appliances, garments, footwear and furniture.

Consumer Durable retailers, in Bangalore for instance, often locate next to one another to create a "Consumer Durable row."
These competing retailers locate near one another because doing so facilitates comparison shopping and thus attracts customers to the locations. If you visit any populated area in an Indian city you can experience this phenomenon. Enclosed malls offer the same benefits to consumers interested in comparison shopping for fashionable apparel. Thus, fashion stores and specialty apparel retailers locate in malls for the same reason which can be experienced in Bangalore if you visit any big mall you will find a Westside close to a Pantaloon or Reliance trends enclosed in the same Mall. Even though the enclosed mall might be inconvenient compared with a freestanding location, comparison shopping is easier after the customers have arrived. Category specialists offer the same benefit of comparison shopping as a collection of specialized merchandise.

When consumers go **specialty shopping**, they know what they want and will not accept a substitute. They are brand and/or retailer loyal and will pay a premium or expend extra effort, if

necessary, to get exactly what they want. Examples of these shopping occasions include buying ayurvedic products or specific brands like Soch or Biba in women's wear or a restaurant like Bar B Q Nation or Chennai silks wedding collection. The retailers they patronize when specialty shopping also are destination stores. Thus, consumers engaged in specialty shopping are willing to travel to an inconvenient location. Having a convenient location is not as important for retailers selling unique merchandise or services.

Density of Target Market

A second, but closely related, factor that affects the choice of location type is the density of the retailer's target market in relation to the location. A good location has many people in the target market who are drawn to it. So a convenience store located in a CBD can be sustained by customers living or working in fairly close proximity to the store. Similarly, a comparison-shopping store located next to a popular Mall is a potentially good location because the mall draws lots of customers from a very large area. It is not as important to have high customer density near a store that sells specialty merchandise, because people are willing to search out this type of merchandise. A Mercedes dealership, for instance, need not be near other car dealers or in close proximity to its target market, because those seeking a Mercedes car will drive to wherever the dealership is located.

Uniqueness of Retail Offering

Finally, the convenience of their locations is less important for retailers with unique, differentiated offerings than for retailers with an offering similar to other retailers. For example, Decathlon provides a unique merchandise assortment and store atmosphere. Customers will travel to wherever the store is located, and its location will become a destination.

Environmental and Sustainability Issues

The Environmental Protection, as well as state and local agencies, has become increasingly involved with issues that could affect retail stores. Two environmental issues have received particular attention in recent years. The first is asbestos-containing materials or lead pipes used in construction. These materials can be removed relatively easily. The second issue is hazardous materials that have been stored in the ground. This consideration can be particularly important for a dry cleaner because of the chemicals it uses or for an auto repair shop because of its need to dispose of used motor oil and battery fluid.

Legal considerations

Legal considerations need to be examined when evaluating different location types. Laws regarding how land may be used have become so important that they often are a retailer's first consideration in a site search. Legal issues that affect the location decision include environmental and sustainability issues, zoning, building and licensing requirements.

Sessions 13-14

Retail Locations

High Street refers to the primary street where business happens or has over the years transformed into a focal point where the best brands display their merchandise like a brigade road or Commercial Street in Bangalore or a Connaught place in Delhi.

CBD refers to central business district like a MG road in Bangalore or a place like Churchgate or a Worli in Mumbai.

Main Street refers to the traditional shopping area in smaller towns or to a secondary business district in a suburb or within a larger city. Streets in some of these areas have been converted into pedestrian walkways.

Main Streets share most of the characteristics of a primary CBD, but their occupancy costs are generally lower. Main Street locations do not draw as many people as the primary CBD because fewer people work in the area and the fewer stores generally, mean a smaller overall selection. In addition, Main Streets typically don't offer the range of entertainment and recreational activities available in the more successful primary CBDs. Finally, authorities for the town or city often imposes some restrictions on Main Street store operations.

In modern times High Streets are threatened by large big-box retailers located outside the city limits. The European countries subsidizing the redevelopment of Main Street areas to help local retailers are becoming a priority. Europe has greater population density and less space, and strict planning and greenbelt laws provide a sharp division between town and country. Suburbs are few, thus minimizing urban sprawl. But preserving the environment comes at a cost for Europe. The limits on out-of-town, big-box retailing reduce competition and retailing efficiency, causing higher prices.

The term **inner city** in the United States refers to a high density urban area that has higher unemployment and lower median income than the surrounding metropolitan area. Some retailers have avoided opening stores in the inner city because they believe it is riskier and achieves lower returns than other areas. As a result, inner-city consumers often have to travel to the suburbs to shop, even for food items. Although income levels are lower in inner cities than in other neighborhoods, inner-city retailers often achieve a higher sales volume and higher margins, resulting in higher profits.

Retailing can play an important role in inner-city redevelopment activities by providing needed services and jobs for inner-city residents, as well as property taxes to support the redevelopment. Because of the potential of this untapped market and incentives from local governments, developers are increasing their focus on opportunities in the inner city. Often local governments will use the right of eminent domain to buy buildings and land and then sell it to developers at an attractive price. However, inner-city redevelopments can be controversial. For instance, people are concerned about the residents displaced by the development, increased traffic, and parking difficulties.

The offerings at inner-city grocery stores have traditionally been particularly unattractive. Instead of offering produce, they tend to feature lower-priced packaged foods that have longer shelf lives. The limited number of supermarkets in the inner city means that residents have to take buses to do their shopping.

Shopping Centers

A shopping center is a group of retail and other commercial establishments that are planned, developed, owned, and managed as a single property. By combining many stores at one location, the development attracts more consumers to the shopping center than would be the case if the stores were at separate locations. The developer and shopping center management carefully select a set of retailers that are complementary to provide consumers with a comprehensive shopping experience, including a well-thought-out assortment of retailers. However, surprisingly, it's not uncommon, for instance, for a store's sales to increase when a competing store enters the shopping center.

The shopping center management maintains the common facilities such as the parking area—an arrangement referred to as common area maintenance (CAM)—and is responsible for providing security, parking lot lighting, outdoor signage for the center, advertising and special events to attract consumers, and so on. Lease agreements typically require that retailers in the center pay a portion of the CAM costs for the center according to the size of their store's space and/or sales volume. The shopping center management can also place restrictions on the operating hours, signage, and even the type of merchandise sold in the stores. Most shopping centers have at least one or two major retailers, referred to as anchors, such as Reliance Trends, Zara or Shoppers Stop. These retailers are courted by the center's developer because they attract a significant number of consumers and consequently make the center more appealing for other retailers. To get these anchor retailers to locate in a center, developers frequently give them special deals, such as reduced lease costs.

In some shopping centers, supermarkets like Big Bazaar are typically anchors, whereas department stores traditionally anchor enclosed shopping malls. However, a lifestyle center may not have anchors, whereas power centers consist primarily of multiple "anchor" stores.

Shopping Malls

Shopping malls are enclosed, climate-controlled, lighted shopping centers with retail stores on one or both sides of an enclosed walkway. Parking is usually provided around the perimeter of the mall. Shopping malls are classified as either regional malls (less than 800,000 square feet) or superregional malls (more than 800,000 square feet). Super-regional centers are similar to regional centers, but because of their larger size, they have more anchors, specialty stores, and recreational opportunities and draw from a larger geographic area. They often are considered tourist attractions.

Shopping malls have several advantages over alternative locations. First, shopping malls attract many shoppers and have a large trade area because of the number of stores and the opportunity to

combine shopping with entertainment. They provide an inexpensive form of entertainment. Older citizens get their exercise by walking the malls, and teenagers hang out and meet their friends. Thus malls generate significant pedestrian traffic inside the mall. Second, customers don't have to worry about the weather, and thus malls are appealing places to shop during cold winters and hot summers. Third, mall management ensures a level of consistency that benefits all the tenants. For instance, most major malls enforce uniform hours of operation.

Sessions 15-16

Retail Site Location other aspects

Having selected an area in which to locate its stores, a retailer's next decision is how many stores to operate in the area. Initially a retailer may think one can choose location in each locality of the city, but clearly, larger localities with higher population density can support more stores than smaller localities. It may therefore be more advantageous to locate several stores in one locality and none in others. But there is a limit to how many stores can be operated in even the largest locality. When making the decision about how many stores to open in an area, retailers must consider the trade-offs between lower operating costs and potential sales cannibalization from having multiple stores in an area.

Economies of Scale from Multiple Stores

Most retail chains open multiple stores in an area because promotion and distribution economies of scale can be achieved. A retailer's total promotional costs are the same for newspaper advertising that promotes 20 stores in an area or only one store. Multiple stores in an area are needed to justify the cost of building a new distribution center. Thus, chains like Big Bazaar expand into areas only where they have a distribution center in place to support the stores. When Big Baazar entered the Bangalore market, it opened 10 stores in the South and western part of city. Opening multiple stores in an area can increase sales per store as well as reduce costs. For instance, although there are 1,100 Café coffee days in India, Its loyal customers recognize its stores and expect to see them everywhere. Finally, the management team can have a greater span of control over a regional market; managers can easily visit the stores and assess competitive situations.

Cannibalization

Although retailers gain scale economies from opening multiple locations in an area, they also suffer diminishing returns associated with locating too many additional stores in an area. For example, suppose the first four stores opened in a city by a specialty store retailer generate sales of 2 crore each annually. Because they are located far apart from one another, customers consider patronizing only the store nearest to them, and there is no cannibalization. When the retailer opens a fifth store close to one of the existing stores, it anticipates a net sales increase for the area of 2 crores the new store should generate the same sales level as the four existing stores. Instead, the increase in sales is only 1.5 crore because the sales in the nearest existing store drop to 1.75 crores and sales from the new store are only 1.5 crores because its location is only the fifth best in the area. Thus, because the new store cannibalizes sales from the closest store, it only contributes sales of 1.5 crores.

Because a primary retailing objective is to maximize profits for the entire chain, retailers should continue to open stores only as long as profits continue to increase or, in economic terms, as long as the marginal revenues achieved by opening a new store are greater than the marginal costs. The organization believes that there are enough shoppers to ensure increased profitability even in such close proximity. For franchise retail operations, the objectives of the franchisor and

franchisee differ, and thus, disputes can arise over the number of locations in an area. The franchisor is interested in maximizing the sales of all stores because it earns a royalty based on total store sales. The franchisee is interested in just the sales and profits from its store(s). Thus, the franchisor is not as concerned about cannibalization as the franchisee is. To reduce the level of conflict, most franchise agreements grant franchisees an exclusive territory to protect them from another franchisee cannibalizing their sales.

EVALUATING A SITE FOR LOCATING A RETAIL STORE

Having decided to locate stores in an area, the retailer's next step is to evaluate and select a specific site. In making this decision, retailers consider three factors:
(1) the characteristics of the site, (2) the characteristics of the trading area for a store at the site, and (3) the estimated potential sales that can be generated by a store at the site. The first two sets of factors are typically considered in an initial screening of potential sites. The methods used to forecast store sales, the third factor, can involve a more complex analytical approach. Each of these factors is discussed in the following sections.

Site Characteristics

Some characteristics of a site that affect store sales and thus are considered in selecting a site are (1) the traffic flow past the site and accessibility to the site, (2) the characteristics of the location, and (3) the costs associated with locating at the site and the cost factors associated with sites.

Traffic Flow and Accessibility

One of the most important factors affecting store sales is the number of vehicles and pedestrians that pass by the site, or the traffic flow. When the traffic is greater, more consumers are likely to stop in and shop at the store. Thus, retailers often use traffic count measures to assess a site's attractiveness. Traffic counts are particularly important for retailers offering merchandise and services bought on impulse or on frequent trips. For example, good traffic flow and accessibility are more important for car washes and grocery stores than for destination retailers like The Container Store.

Natural barriers, such as rivers or mountains, and artificial barriers, such as railroad tracks, divided or limited-access highways, or parks, may also affect accessibility. These barriers' impact on a particular site primarily depends on whether the merchandise or services will appeal to customers so strongly that they cross the barrier. For example, a supermarket on one side of a divided highway with no convenient crossover point will appeal only to consumers going in one direction. In urban cities, most consumers drive to shopping centers, and thus vehicular traffic is an important consideration when evaluating a site. However, pedestrian traffic flow and access by public transportation are more important for analyzing sites in a country where consumers do not drive to shop or for evaluating urban sites and sites within an enclosed mall.

Location Characteristics

Some factors associated with specific locations that retailers consider when evaluating a site are (1) parking, (2) store visibility, and (3) adjacent retailers.

The amount and quality of parking facilities are critical for evaluating a shopping center and specific site within the center. On the one hand, if there aren't enough spaces or the spaces are too far from the store, customers will be discouraged from patronizing the site and the store. On the other hand, if there are too many open spaces, the shopping center may be perceived as having unpopular stores.

Retailers need to observe the shopping center at various times of the day, week, and season. They also must consider the availability of employee parking, the proportion of shoppers using cars, parking by non-shoppers, and the typical length of a shopping trip.

An issue closely related to the amount of available parking facilities but extended into the shopping center itself is the relative congestion of the area. Congestion is an excess level of traffic that results in customer delays. There is an optimal level of congestion for customers. Too much congestion can make shopping slow, irritate customers, and generally discourage sales. However, a relatively high level of activity in a shopping center creates excitement and can stimulate sales.

Visibility refers to customers' ability to see the store from the street. Good visibility is less important for stores with a well-established and loyal customer base, but most retailers still want a direct, unimpeded view of their store. In an area with a highly transient population, such as a tourist center or large city, good visibility from the road is particularly important.

Restrictions and Costs

Retailers may place restrictions on the type of tenants that are allowed in a shopping center in their lease agreement. Some of these restrictions can make the shopping center more attractive for a retailer. For example, a restaurant may prefer a lease agreement that precludes other restaurants from locating in the same center. A store in a shopping center may specify that if the grocery anchor tenant vacates the center, it can be released from its lease. Retailers would look unfavorably on a shopping center with a sign size restriction that prevented easy visibility of the store's name from the street.

Types of Leases

Most retailers lease store sites. Although there are advantages to owning a store site (such as stable mortgage payments and freedom from lease covenants), most retailers don't wish to tie up their capital by owning real estate. Also, most of the best locations—such as in shopping malls—are available only by leasing. There are two basic types of leases: percentage and fixed-rate.

Percentage Leases Although there are many combinations within each type of lease, the most common form is a percentage lease, in which the rent is based on a percentage of sales. In addition to the percentage of sales, retailers typically pay a maintenance fee based on a percentage of their square footage of leased space. Most malls use some form of percentage

lease. Because retail leases typically run for 5 to 10 years, they appear equitable to both parties if rents go up (or down) with sales and inflation. A percentage lease with a specified maximum is a lease that pays the lessor, or landlord, a percentage of sales up to a maximum amount. This type of lease rewards good retailer performance by allowing the retailer to hold rent constant above a certain level of sales. A similar variation, the percentage lease with a specified minimum, specifies that the retailer must pay a minimum rent, no matter how low sales are.

Another type of percentage lease is a sliding scale lease, in which the percentage of sales paid as rent decreases as the sales go up. For instance, a retailer may pay 4 percent on the first Rs 200,000 in sales and then 3 percent on sales greater than Rs 200,000. Similar to the percentage lease with a specified maximum, the sliding scale rewards high-performing retailers.

Fixed-Rate Leases

The second basic type of lease is a fixed-rate lease, most commonly used by community and neighborhood centers. A retailer pays a fixed amount per month over the life of the lease. With a fixed-rate lease, the retailer and landlord know exactly how much will be paid in rent, but as noted previously, this type of lease does not appear as popular as the various forms of percentage leases. A variation of the fixed-rate lease is the graduated lease, in which rent increases by a fixed amount over a specified period of time. For instance, rent may be Rs 100,000 per month for the first three years and Rs 125,000 for the next five years.

A maintenance-increase-recoupment lease can be used with either a percentage or fixed-rate lease. This type of lease allows the landlord to increase the rent if insurance, property taxes, or utility bills increase beyond a certain point.

Terms of the Lease: Although leases are formal contracts, they can be changed to reflect the relative power and specific needs of the retailer. Because the basic format of most leases is developed by the lessor (the property owner), the lease's terms may be slanted in favor of the lessor. It is therefore up to the lessee (the party signing the lease, in this case, the retailer) to be certain that the lease reflects the lessee's needs. Let's look at some clauses retailers may wish to include in a lease.

Cotenancy Clause

Some retail leases contains a cotenancy clause. Taking many forms, some cotenancy clauses require that a certain percentage of a shopping center be leased, while others name specific retailers or types of retailers that are to remain open. If these terms are not met, the retailers with the cotenancy clauses may demand rent reductions or leave altogether. If a retailer has not yet moved in, it can back out of the center if the tenants specified in the cotenancy clause either leave the center or fail to move in.

Prohibited-Use Clause

A prohibited-use clause limits the landlord from leasing to certain kinds of tenants. Many retailers don't want the landlord to lease space to establishments that take up parking spaces but

do not bring in shoppers, such as a bowling alley, meeting hall, gym, or training center. Retailers may also wish to restrict the use of space from those establishments that could harm the shopping center's wholesome image. Prohibited-use clauses often specify that bars, pool halls, game parlors, off-track betting establishments, massage parlors, and pornography retailers are unacceptable.

Exclusive-Use Clause

An exclusive-use clause prohibits the landlord from leasing to retailers that sell competing products. For example, a super market lease may specify that the landlord cannot lease to other supermarket, or similar discount or value retailers.

Some retailers also are particular about how the storefront appears. For instance, a women's specialty store may specify that the storefront must have floor-to-ceiling glass to maximize window displays and improve customers' ability to see into the store. Other retailers believe it is important that nothing blocks the view of the store from the street, so they specify that the landlord cannot place any outparcels in the parking lot. An outparcel is a building (such as a bank or McDonald's) or kiosk (such as an automatic teller machine) that sits in the parking lot of a shopping center but is not physically attached to the center.

Sessions 17-18

Issues in Retail Human Resource Management

Human resource management in retailing is very challenging for several reasons. First, it is difficult to achieve a fine balance between the ability to satisfy the needs of employees, the ability of HR team at the corporate offices to set policies, and the capabilities of store managers to implement those policies. Second, retailers have increased their proportion of part-time employees in an effort to reduce expenses. Third, as the population has become more diverse, so has retailers' labor pool, making managing diversity an important objective for HR professionals in retailing. Finally, retailers that have expanded beyond their Local state borders modify and adjust their HR perspectives, policies, and procedures.

Controlling costs

Retailers must control their expenses if they are to be profitable. Thus, they are cautious about paying high wages to employees who perform low-skill jobs. To control costs, retailers often hire people with little or no experience to work as sales associates, promoters, and waiters. High turnover, absenteeism, and poor performance often result from this use of inexperienced, low-wage employees. The lack of experience and motivation among many retail employees is particularly troublesome because these employees are often in direct contact with customers. Poor appearance, manners, and attitudes can have a negative effect on sales and customer loyalty. Research has shown that in some types of retail operations, a modest investment in hiring more staff will result in a significant increase in sales. If customers can't find a particular product on their own, or if they can't get an explanation of how it works or how it is used, the product probably won't sell.

Part-Time Employees

Retailers' needs for store employees vary depending on the time of day, day of week, time of year, and promotion schedule. Retailers use computerized systems that are designed to boost service and trim costs by matching staff size to customer traffic, hour by hour. These systems can factor the effects of store promotions, and even the weather to determine the right staffing for different hours and days. To minimize costs, the systems suggest that retailers complement their full-time (6 day week) store employees with part-time workers. Part-time employees are less expensive than comparable full-time employees. Further, they are usually offered no health or retirement benefits and little job security. The growth of part-time staff in retailing has been slightly outpacing that of full-time staff.

Utilizing Diverse Employee Groups

The changing demographic pattern will result in a chronic shortage of qualified sales associates. So, besides utilizing less expensive part-time labor, retailers are increasing their efforts to recruit, train, manage, and retain mature, minority, and handicapped workers. Although young employees have traditionally made up the majority of the retail labor force, retailers have

realized that what these employees want out of their jobs and work environments is quite different from what their older supervisors want and, therefore, that different approaches need to be used to manage them. They want more flexibility, meaningful jobs, professional freedom, and a better work-life balance than older employees do. Younger employees readily switch jobs if their expectations aren't met, making employee turnover high. To help ease the overall labor shortage and the perceived deficiencies of younger workers, retailers are increasingly turning to older employees because they are more reliable, have lower turnover rates, and often have better work performance. Training costs are also lower for older people since thy generally have had strong work experience. These advantages of hiring older employees counterbalance any increased costs in missed days for medical problems.

DESIGNING THE ORGANIZATION STRUCTURE FOR A RETAIL FIRM

The organization structure identifies the activities to be performed by specific employees and determines the lines of authority and responsibility in the firm. The first step in developing an organization structure that are typically performed in a retail firm. These tasks are divided into four major categories in retail firms: strategic management, administrative management (operations), merchandise management, and store management.

Centralization versus Decentralization

Centralization occurs when the authority for retailing decisions is delegated to corporate managers rather than to geographically dispersed managers; decentralization occurs when the authority for retail decisions is assigned to lower levels in the organization. Retailers reduce costs when decision making is centralized in corporate management. First, overhead falls because fewer managers are required to make the merchandise, human resource, marketing, real estate, information system, and financial decisions. Second, by coordinating buying across geographically dispersed stores, the company can achieve lower prices from suppliers. The retailer can negotiate better purchasing terms by placing one large order rather than a number of smaller orders.

Sessions 19-20

Retail Supply Chain Management

Objectives of SCM in a Retail chain are:

Improved Product Availability

Efficient supply chain management provides two benefits to retailers and their customers: (1) fewer stock outs and (2) tailored assortments. These benefits translate into greater sales, lower costs, higher inventory turnover, and lower markdowns for retailers.

Fewer Stock outs

A **stock out** occurs when an SKU that a customer wants is not available. What would happen if Ruchir went to the Prestige store and the store did not have Pop up toasters because the distribution center did not ship enough to the store? The store would give Ruchir a reminder when the store receives a new shipment. But Ruchir would not be pleased because he would have made a wasted trip to the store. As a result of the stockout, Ruchir might decide to buy another model, or he might go to a nearby Croma store to buy a opo up toaster oven from Morphy Richards or Havells. While at Croma, he could buy other kitchen items in addition to the toaster oven. He also might be reluctant to shop at Prestige in the future and might tell all of his friends about the negative experience he had.

This bad experience could have been avoided if Prestige had done a better job of managing its supply chain. In general, stock outs have significant short- and long-term effects on sales and profits. Data show that the first time customers experience a stock out, they will purchase a substitute item 70 percent of the time. With a second out-of-stock occurrence, that rate drops to 50 percent, with customers going to a competitor the other 50 percent of the time. By the third instance, there is a 70 percent chance that the retailer has lost the sale entirely and, most likely, the customers' loyalty as well. Customers may never come back.

Tailored Assortments

Another benefit provided by information systems that support supply chain systems is making sure that the right merchandise is available at the right store. Most national retail chains adjust assortments in their stores on the basis of climate—stocking more sweaters in Delhi stores and cotton wear in Bangalore stores during the winter. Some retailers are now using sophisticated statistical methods to analyze sales transaction data and adjust store assortments for a wide range of merchandise on the basis of the characteristics of customers in each store's local market.

Higher Return on Assets

From the retailer's perspective, an efficient supply chain and information system can improve its ROA because the system increases sales and net profit margins, without increasing inventory. Net sales increase because customers are offered more attractive, tailored assortments that are in stock. A retail chain could accurately estimate how many Prestige toaster ovens each store would sell during the special promotion. Using its supply chain management system, it would make sure, sufficient stock was available at the store so that all the customers who wanted to buy one could. Net profit margin is improved by increasing the gross margin and lowering expenses. An information system that coordinates buyers and vendors allows retailers to take advantage of special buying opportunities and obtain the merchandise at a lower cost, thus improving their gross margins. Retailers also can lower their operating expenses by coordinating deliveries, thus reducing transportation expenses. With more efficient distribution centers, merchandise can be received, prepared for sale, and shipped to stores with minimum handling, further reducing expenses.

The Physical Flow of Merchandise—Logistics

1. Merchandise flows from vendor to distribution center.
2. Merchandise goes from distribution center to stores.
3. Alternatively, merchandise can go from vendor directly to stores or even the customer.

Logistics is the aspect of supply chain management that refers to the planning, implementation, and control of the efficient flow and storage of goods, services, and related information from the point of origin to the point of consumption to meet customers' needs. In addition to managing inbound and outbound transportation, logistics involves the activities undertaken in the retailer's distribution center. For example, sometimes merchandise is temporarily stored at the distribution center; other times it just passes through the center from an inbound to an outbound truck. Merchandise shipments might be prepared for stores in the center. For example, the center might break down received shipping cartons into smaller quantities that can be more readily utilized by the individual stores.

THE DISTRIBUTION CENTER

The distribution center performs the following activities: coordinating inbound transportation; receiving, checking, storing, and cross-docking; getting merchandise "floor-ready"; and coordinating outbound transportation.

Management of Inbound Transportation

Traditionally, buyers focused their efforts, when working with vendors, on developing merchandise assortments, negotiating prices, and arranging joint promotions. Now, buyers and planners are much more involved in coordinating the physical flow of merchandise to the stores.

Receiving and Checking

Receiving is the process of recording the receipt of merchandise as it arrives at a distribution center. Checking is the process of going through the goods on receipt to make sure that they arrived undamaged and that the merchandise ordered was the merchandise received.

Storing and Cross-Docking

After the goods are received and checked, they are either stored or cross-docked. When goods are stored, the cartons are transported by a conveyor system and forklift trucks to racks that go from the distribution center's floor to its ceiling. Then, when the goods are needed in the stores, a forklift driver goes to the rack, picks up the carton, and places it on a conveyor system that routes the carton to the loading dock of a truck going to the stores. Cross-Docking goods cartons that are cross-docked are prepackaged by vendor for a specific store. The Barcode/ RFID label on each carton indicates the store to which it is to be sent. Vendor may also affix a price tag to each item in the carton. The cartons are placed on a conveyor system that routes them from the unloading dock at which they were received to the loading dock for the truck going to the specific store—thus, the term cross-docked. The cartons are routed on the conveyor system automatically by sensors that read the RFID labels on the cartons. These cross-docked cartons are only in the distribution center for a few hours before they are shipped to the stores.

Management of Outbound Transportation

The management of outbound transportation from distribution center to stores is quite complex. Most distribution centers run 50 to 100 outbound truck routes each day. To handle this complex transportation problem, the centers use sophisticated routing and scheduling computer systems that consider the locations of the stores, road conditions, and transportation operating constraints to develop the most efficient routes possible. As a result, stores are provided with an accurate estimated time of arrival, and vehicle utilization is maximized.

Retailers also need to determine the mode of transportation—planes, ships, or trucks. Some retailers mix modes of transportation to reduce overall costs and time delays. For example, many Chinese vendors send Europe-bound cargo by ship to the U.S. West Coast. From there, the cargo is flown to its final destination in Europe. By combining the two modes of transport, sea and air, the entire trip takes about two weeks, as opposed to four or five weeks with an all-water route, and the cost is about half that of an all-air route.

Pull and Push Supply Chains

Another supply chain decision retailer make is determining whether merchandise will be pushed from the distribution centers to the stores or pulled from the distribution centers to the stores. A supply chain in which requests for merchandise are generated at the store level on the basis of sales data captured by POS terminals. Basically, in this type of supply chain, the demand for an item pulls it through the supply chain. An alternative and less sophisticated approach is a push supply chain, in which merchandise is allocated to stores on the basis of forecasted demand.

Once a forecast is developed, specified quantities of merchandise are shipped (pushed) to distribution centers and stores at predetermined time intervals.

In a pull supply chain, there is less likelihood of being overstocked or out of stock because the store requests for merchandise are based on customer demand. A pull approach increases inventory turnover and is more responsive to changes in customer demand, and it becomes even more efficient than a push approach when demand is uncertain and difficult to forecast.

Although generally more desirable, a pull approach is not the most effective in all situations. First, a pull approach requires a more costly and sophisticated information system to support it. Second, for some merchandise, retailers do not have the flexibility to adjust inventory levels on the basis of demand. For example, commitments must be made months in advance for fashion and private-label apparel. Because these commitments cannot be easily changed, the merchandise has to be allocated to the stores at the time the orders are formulated. Third, push supply chains are efficient for merchandise that has steady, predictable demand, such as milk and eggs, basic men's underwear, and bath towels. Because both pull and push supply chains have their advantages, most retailers use a combination of these approaches.