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Retailer and Consumer Acceptance of Promising Novel Technologies and Collaborative Innovation Management

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The Retail Buying Process

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RETAIL BUYING

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RETAIL BUYING

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1. RETAIL BUYING RESEARCH

1.1 Introduction

The retail buying process, and those involved, play an important role in the value chain as they ultimately determine which products and brands are made available to the consumer. Historically role of retail buying has been to make decisions about which products to buy and which suppliers to buy from, but now the retail buying process is also increasingly involved in generating revenue from these purchases. The "modern" retail buyer is now involved in activities previously undertaken by the commercial, operational and sales functions eg product development, market analysis, sales forecasting and range, assortment, and brand management.

The nature, organisation and implementation of the buying process is influenced by a range of external and internal factors including the scale of the organisation, the product categories sold, and the company's market position within the competitive environment in which it operates. In addition, the responsibilities of, and activities undertaken by, a retail buyer or buying unit, will reflect the company's corporate culture, resource base, and organisational structure. Whilst there are common themes and approaches to retail buying, there are a number of factors which shape and determine the actual implementation of the buying process.

1.2. The Traditional View of Retail Buying

Retail buying has historically been treated as a sub-set of organisational or industrial buying behaviour (IBB) by academics. Sheth (1981) with his "*theory of merchandise buying behaviour"* is regarded as having produced the first conceptual model of retail buying. Drawing on the IBB perspective, the assumption was that retailers used discrete choice criteria to make rational decisions optimising the choices between alternative products and suppliers in order to meet the merchandise requirements of the retailer. In simple terms, this required an assessment of organisational goals (the products\merchandise needed); the

alternative means of meeting those goals (alternative products and suppliers); the constraints on these alternative means (accessibility of alternative products\suppliers); and the criteria used to select between means. The model assumed knowledge of alternatives and the consequences of choices between alternatives, consistent values by which to evaluate alternatives and consequences, and rules by which decisions between alternatives were made. Consequently the focus of attention in existing research into retail buying was upon identifying the tasks and roles within the buying process, and categorising the decision making criteria used (eg Nilsson & Hølst, 1987; Banting & Blenkhorn, 1988).

However, the applicability of these "traditional" models to the realities of modern grocery retailing has been questioned (eg Johansson, 2001). Retail buying today is inherently more complicated and diverse than the traditional IBB models would suggest. Holm Hanson & Skytte (1998) identified a number of key influences omitted from the traditional models, including:

- the emergence of private brands;
- the structure of retail organisations;
- the use of information and information technology;
- the changing role of retailing in the channel;
- the incorporation of a wider range of service and experience elements in retail strategies.

As retailing has become more market oriented in its approach, with a move towards a demand (pull) chain rather than a supply (push) chain ethos, the implications for retail buying have been generally overlooked (Varley, 2001). The emergence of a consumer driven approach to retailing has been greatly facilitated by advances in information technology, and approaches and tools such as Electronic Data Interchange (EDI), Efficient Consumer Response (ECR), Category Management (CM) in grocery and Quick Response (QR) in clothing. As retailing has evolved the study of retail buying has lagged behind. Changes have occurred in:

- the tasks/activities carried out;
- the composition and behaviour of the buying (decision making) unit;
- the organisation and management of retail activities.

There have been significant changes in the scope, organisation and implementation of retail buying. This calls into question the continued relevance of the essentially static, liner modes originally developed, within an increasingly dynamic, relationship based environment. The common themes within existing research into retail buying require re-evaluation.

1.3 The Role of the Retail Buyer and the Tasks in the Retail Buying Process

One of the most common themes in the retail buying literature is the exploration of the role of the retail buyer and the tasks involved in the retail buying process. The general assumption is that the decision making process entails a series of clearly defined stages or *"buy-phases"* involving a range of tasks which lead to an eventual decision (eg Diamond & Pintel, 1993; Schuh 1998; Gilbert 1999). These stages are typically regarded as part of a linear, sequential process and comprise various forms of:

- problem recognition (through internal or external stimuli);
- product specification;
- supplier search;
- supplier choice;
- supplier evaluation;
- supplier selection;
- order specification;
- and performance review.

The number and nature of these stages varies with the type of decision or '*buy-class*'. All of the stages will feature in the case of a '*new-task*' buy, (i.e. when both the product being purchased is new and the potential supplier is not known), but when products are re-bought some of the stages in the sequence are un-necessary. For example, in the case of a '*modified re-buy*', when the same item is required but a new supplier is sought, or in the case of a '*straight re-buy*', where the same product is bought from the same supplier.

One criticism of the traditional models (see for example Smith and Bard, 1989), is that they do not make allowance for the importance of the purchase, or the complexity of the evaluation task. One might argue that for a retail buyer today, the traditional generic 'buy-

phases' are not necessarily in the correct sequence, or that additional stages are required, and that the process is not as rational or linear as implied. For example, detailed specifications might well precede the selection of a supplier, especially if private brands are being sought (Shaw et al 1992; Johansson and Burt, 2004). The sourcing of private brand ranges requires greater involvement on the part of the buyer : *"The implication of own label for the buyer's role is a change of emphasis from negotiating the best deal for "off the shelf" products to a range of marketing and buying tasks such as sales forecasting, range design, product quality and new product launches. Exploratory research suggest that involvement in own labels is a main factor determining the breadth of the buyer's role". (Swindley, 1992)*

The pro-active role played by the retailer in the development of private brands requires greater involvement in the product development process - including need recognition, idea generation and product and market testing. In effect additional stages (usually enacted by the supplier for manufacturer brand products) may be added to the process and different approaches are required to supplier relationships and governance. Paché (2007), for example, also points out that additional competencies and skills are required to guard against potential supplier opportunism, and illustrates this by contrasting the organisation of private brand buying in the UK with that evolving in France. Furthermore, the traditional '*buy-classes*' – new, modified re-buy and straight-buy - may not accurately reflect the range of possible outcomes open to the retail buyer with regard to merchandise and supplier choice.

Other authors categorise the role of retail buying and the tasks involved in different ways, usually broadening out the role of retail buying to encompass management and control functions. For example, Cash *et. al* (1995) divide the management of the buying function into five major areas:

- *Planning* – forecasting, setting objectives, formulating policies and standards (within a retailer's overall merchandise strategy), developing schedules and converting estimates into budgets.
- *Organising* - delegating key tasks within the buying unit. Line organisation relates to the direct chain of command for the buying function. Staff organisation refers to those individuals who may advise others, but do not necessarily have the power to enforce their ideas or decisions - this group may include category managers, designers and space planners. Depending on the organisational structure, some of these functions

may be part of a 'line' structure, sometimes independent of the buying team proper. There is, therefore the potential for conflicts of interest between different groups.

- *Co-ordinating* - implementing, guiding and shaping the buying and/or merchandising plan. This may involve the observance of company policy in range development and the balance within and between merchandise groups and related categories. The timing of merchandise deliveries both into the warehouse and into the store(s) is another important co-ordinating task. The responsibility for co-ordination is likely to be shared by the buyer with others and will probably also be a key task of a more senior manager, who operates over several categories.
- *Achieving* - range selection and negotiation. This area is most closely aligned with the traditional "buy phase" approach outlined above and the traditional role and tasks of the retail buyer.
- *Control* - measuring the above and using corrective action as appropriate (eg promotions, discounts, wastage). Often a specialised merchandiser performs many of these functions in a retail buying context, but the job roles of buyers and merchandisers frequently overlap.

In a non-food context, Fiorito and Fairhurst (1993) identified six main areas of involvement for the retail buyer. Most of which are also relevant in a grocery context:

- *Analysis of past sales and promotions* – analysing sales reports and stock levels, analysing customer purchasing patterns, predicting future trends, wants and desires
- *Planning financial budgets* – constructing sales and purchase plans, assessing gross margins and stock levels, modelling markdowns and markups
- *Developing merchandise* – constructing merchandise assortments, selecting and pricing merchandise, meeting vendors, sourcing private labels
- *Vendor planning and negotiations* – selecting vendors and building relationships, replenish stock
- *Integrating marketing plans* – develop merchandising plans, promotional activities etc, plans for sale
- *Training and development of staff* – providing information to sales staff, planograms etc

In the early 1990s, Swindley (1992) developed the themes contained in the general American retail buying texts and attempted to apply them to the UK context. He focused on identifying the responsibilities and qualities of retail buyers, who they interact with and how they are appraised, and concluded that the main responsibilities of UK buyers at the time were: the selection, feasibility and monitoring of products; the selection and appraisal of, and negotiation with, suppliers; and pricing decisions, including an influence over markdowns. Although Swindley's research contained buyers from both food and non-food sectors, there was little discussion of how the buying role varied between these sectors. However, grocery buyers in the UK in the 1990s seemed to be predominantly involved in negotiation (ie "Achieving" in the Cash et al typology), rather than other buying tasks.

The general tenor of these studies is that there has been a broadening of the role of retail buying into the areas of merchandising – in effect changing the focus from merely sourcing and purchasing products for resale by the commercial\operational teams to assuming greater direct responsibility for sales performance. Ownership of the consequences of the buying decision now resides with the retail buyer.

1.4 The Composition and Behaviour of the Retail Buying Centre

A second common theme in existing research into retail buying is the nature of the decision making unit (whether an individual or group), and associated behaviours and relationships. The traditional view is that buying activities are carried out by a buyer\buying centre, supported by several internal and external actors. Classical IBB theory frequently discusses the concept of a '*buying centre'* or '*decision- making unit*' (DMU) which comprises a number of actors who each have a role in the buying process. Webster and Wind (1972), describe five such roles:

- *User* - on whose behalf a product is purchased.
- *Influencer* - who may be a specialist who advises on the problem, perhaps in a technical capacity
- *Decider* - who has ultimate responsibility for the purchase decision.
- *Buyer* - who is involved with day-to-day activity with potential suppliers eg negotiation. A buyer in this context may or may not be a decider.

- *Gatekeeper* - through which information on particular issues, say on products or markets, is distributed. Potentially a gatekeeper can be an inhibiting factor in the buyer-supplier relationship.

In grocery retailing most buying has been traditionally undertaken by a buying committee (Gordon 1961, Hileman and Rosenstein 1961; Nilsson, 1977; Hutt 1979; Nilsson and Høst, 1987; Shaw et al, 1992). A buying committee consists of two or more persons who make "joint" decisions on the purchase of products made available for resale through stores or other channels. Gordon (1961) found that 85% of medium and large scale grocery chains used buying committees, and even when there was no formal committee, an informal "committee" was effectively in operation. The buying committee approach also reduces the impact of individual relationships (between a buyer and a supplier) on decision making (Hutt 1979).

Buying centres are inevitably multi-faceted and dynamic in nature (Johnston and Bonoma, 1981; Ghingold and Wilson, 1998) with decisions carried out by combinations of different individuals referring to different criteria and at different points in time. The experience and competence of individuals comes into play, as does the personal relationships between individuals. There is evidence to suggest that the more interaction a buyer has with a supplier, the more likely that supplier loyalty will develop and purchases will continue to be made from that supplier (Patton et al 1986). Johnston and Bonoma (1981) identify three variables impacting on the dynamic and fluid nature of the buying centre: extensivity – the number of participants; lateral involvement – number of areas\department represented; and vertical involvement – number of hierarchical levels within the firm involved.

Over time, and with the advent of category management, the buying committee structure has evolved and been overtaken by a more holistic approach. This reflects the changing nature of information available within retail organisations, and a mind-set change towards a consumer led perspective. This type of approach requires a multi-disciplinary team encompassing not just comprising buying and negotiation skills, but also food technology, marketing and merchandising skills. In the category management approach the team manages the whole product category, with the emphasis on maximising performance across the full category not just performance of individual products or brands (Zenor, 1994; Basuroy et al 2001). This approach also requires a change in relationships with suppliers – with a move towards a more collaborative and co-operative model than traditionally experienced.

The buying centre will inevitably contain some degree of conflict, which needs to be accommodated by the buyer. This might include issues determined by a participant's role in the organisation (for example a buyer might disagree with a designer over the viability of the line), or by differential status (seniority usually carries sway when a final decision on a line is made). A further important interactional influence is that between the buyer's company and the supplier. Håkansson (1982) and others from the Industrial Marketing and Purchasing (IMP) Group argue that the social aspects of buyer-seller relationships are critical to the buying process.

Notwithstanding the importance of the external and internal environment and the various interactional influences, retail buying is still undertaken by individuals. Thus the buyer's personality, motivations and experience, amongst other factors, will all play a role in the decisions that are taken. These 'personal' influences are deemed to be 'non-task' variables, though an obvious linkage can be seen at times between 'task' (relevant) and non-task (irrelevant) motives. For example, a buyer seeking advancement (a non-task motive) may be strongly influenced by a senior colleague's preference regarding a supplier.

1.5 The Contextual Influences on Retail Buying

A third theme emerging in existing literature is the influence of contextual variables in shaping the retail buying process. Retail buying is carried out in an organisational context and absorbs resources. The importance of the organisational context for retail buying has been noted by Briney-Gresham and Gruben (1993); Gaedeke and Tootelian (1991); McGoldrick and Douglas (1983). Influences on the organisational buyer are drawn from a broader range of sources than for the consumer decision-making process. In addition to general macro-environmental influences, there is the added complexity of organisational influences on the buying centre or DMU, plus the way in which the participants in the buying centre interact together and with potential suppliers. The macro-environmental issues that influence the buying function change over time, for example the emergence of consumer interest in ethical sourcing and fair trade. The ability to reflect such changes via retail buying processes may provide a source of competitive advantage or disadvantage with regard to consumer perceptions.

The buying task will vary with the product categories sold by the retailer. There will be significant differences between retailers where branded goods dominate and those for who store brands are an important part of the product mix. As noted above, to develop store brands the buying team needs to contain expertise in product development, packaging, design and food technology as well as incorporating the merchandising and distribution functions.

The internal, or organisational, environment of the retailer is also relevant to retail buying. The nature of the buying task will differ depending on a number of factors. These will include the size of the retail organisation, the product categories sold, and the organizational structure and culture of the retailer. The size of the retailer is relevant both in terms of the number of stores and the turnover/profitability of the company. The buying task for a multiple retailer with a large number of stores across a range of formats (hypermarkets, supermarkets, convenience stores), is more complex both logistically and financially than that for a smaller chain selling a smaller range of products through a mono-format approach.

The organisational structure and culture of the retailer impacts upon the degree of centralisation within the organisation, the level within the organisation at which buying or selection activity may take place (corporate, regional, store level), and the relationship between buying (purchasing) and merchandising and sales tasks. There are arguments for and against such a split: the principal argument in favour of a linkage between the buying and selling tasks is that the buyer tends to have a greater 'ownership' of the range and because of their increased proximity to the customer acts more responsibly. Against this is the suggestion that buying and selling are two separate and specialised skill-sets and that they are rarely both found in one individual. Organisational culture is a difficult factor to define but is reflected in the influence of leadership and managerial style on buying (and other functions). For example cooperation or competition between teams may be encouraged, whilst some retailers may be seen as being more combative or confrontational in terms of negotiation style.

More recently Johansson (2002) and Johansson and Burt (2004) identify three forms of organisational integration which impact on the buying process

- *Vertical integration* – the degree of co-ordination between the retailer's central office and the stores. In Nilsson and Høst's (1987) classic study of retail buying in Sweden,

differences in assortment building were attributed to the degree of integration in the retail chains concerned. If buying is conducted centrally within a strongly vertically integrated chain, the buying process will vary considerably from the model where store managers select at the local level. The number of decision makers is dramatically reduced – potentially to one – and the degree of central control, range consistency and cost\efficiency is increased. Increased vertical integration of retailing and supply chains in general is a common trend in most markets.

- *Horizontal integration* – the degree of co-ordination between stores within an organisation. A wholly owned chain will exhibit a greater degree of horizontal integration than a co-operative or federal organisational structure. The degree of standardisation – range assortment, range presentation, promotions, pricing etc – will be higher in the former. Whilst information systems increasing provide the capacity for retailers to "tweak" the range at a local level, to reflect local market conditions, this process is typically managed from the corporate centre.
- *Internal integration* – the way the buying task is organised internally. The lower the degree of vertical and horizontal integration, the more complex and elaborate the process is likely to be. Inevitably there will be more functions, activities, and decision makers to co-ordinate. The "simpler" configuration likely to be found in organisations with high levels of vertical and horizontal integration is likely to allow greater leverage of information, and co-ordination allowing retailers to move towards demand chain approaches to buying and supply chain management encapsulated by Efficient Consumer Response and Category Management.

When comparing manufacturer brand and private brand buying process in the UK, Sweden, and Italy – markets chosen to represent different levels of integration, Johansson and Burt (2004) observed different degrees of complexity in the process in respect of the number of activities and tasks undertaken, in the number of participants involved, and in both functional and hierarchical involvement, depending on the configuration of vertical, horizontal and internal integration (figure 1.1)

Figure 1.1 – Buying Process Complexity, the Degree of Integration

	UK	**Sweden**	**Italy**

Indicative Market Characteristics			
- vertical integration	High	Mixed/Low	Low
- horizontal integration	High	Medium/Low	Low
- internal integration	Simple	Elaborate	Elaborate
Buying Process Complexity – Manufacturer Brands			
- process extension (tasks/activities)	-	-	-
- extensivity (number of participants)	-	+	++
- lateral involvement (functions/departments)	++	+	++
- vertical involvement (hierarchy/levels)	-	++	++
Buying Process Complexity – Retail Brands			
- process extension (tasks/activities)	+++	++	++
- extensivity (number of participants)	++	+	+
- lateral involvement (functions/departments)	++	++	+
- vertical involvement (hierarchy/levels)	-	+++	-

The organisational context within which retail buying takes place will, therefore, influence the buying process itself. Whilst generic stages and elements of the process can be identified, implementation may be very varied between and within retail markets.

1.6 The Role of Information Technology Applications

As noted earlier the evolving role of information technology and information technology based applications has had a significant impact on the evolution, scope, organisation and implementation of the retail buying function, particularly in relation to supporting the move towards a consumer driven value chain. A wide variety of information technology systems have resonance with the buying function and link to process developments that connect store operations, buying, merchandising, replenishment and distribution with the supply side. This facilitates the integration of the buying function into wider retail processes and systems (Fiorito et al 2010)

Central to many of the technologies supporting changes in grocery retail buying has been the underlying desire to seek out supply chain efficiencies with the cost of goods sold (including distribution) typically around 80-85% of sales in grocery retailing, the financial prsessure to seek out purchasing and supply chain efficiencies is evident. The notion of partnerships in grocery supply chain management have their origins in the materials management literature. With the advent of lean production, Total Quality Management (TQM) and Just in Time (JIT), organisations built closer working relationships with a reduced number of suppliers (Macbeth, 1994; Gadde and Häkansson, 1994), as this allowed increased efficiency and effectiveness.

The Japanese were at the forefront of innovation in this area, albeit in the automotive, electronic and electrical engineering industries, and as Japanese companies began to achieve international competitive advantage through supply chain efficiencies, North American and European companies began to apply the same principles. Concepts such as Quick Response (QR) in the textile and apparel industry and Efficient Consumer Response (ECR) in the grocery industry began to emerge. Both of these concepts originated in the USA and came about as a result of intense competition in the market place and a need to respond to changes in the market. International comparisons of simple performance measures identified the USA as often over-stocked, over-supplied and slow to react to market changes or demand.

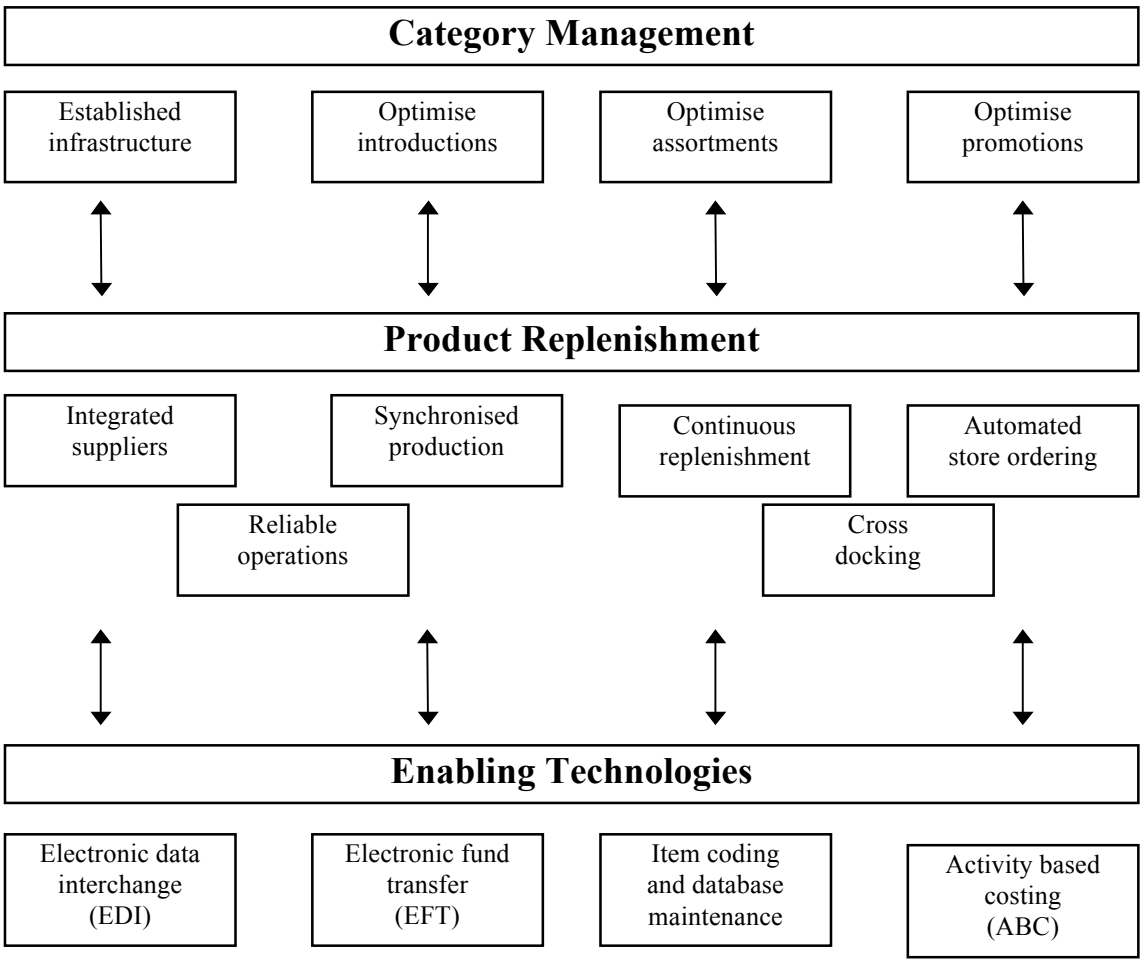
Efficient Consumer Response (ECR) was a reaction by the traditional American supermarket chains and their suppliers to concerns overs eroded profit margins as a result of competition from new retail formats. Kurt Salmon Associates was commissioned to conduct research into the US grocery supply chain, and their results revealed excessive inventories, a 104 day lead time from plant to customer with potential savings estimated to be $30 billion, or 10.8% of sales turnover. The large volume of stock in the grocery channel was a consequence of fragmentation of the supply chain and the pushing of inventory through the warehouse network because of trade promotions and forward buying. Forward buying had begun in the 1970s when heavy discounting by manufacturers was used to circumvent price controls introduced by the Nixon Administration. Rather than being phased out, however, forward buying persisted as grocery manufacturers focused on trade promotions at the expense of other elements of the promotional mix (Lal et al 1996, Desai et al 2010). Kurt Salmon (1993) maintained that some retailers had 7- 8,000 deals on file at any one time with buyers and sales reps spending 10-15% of their time resolving price discrepancies.

Similarly in Europe, Paché (1995) commented on the implications of the practice of building speculative inventories in the French grocery market. The historical development of the French grocery market over the previous twenty years encouraged bulk buying of very large quantities of branded product to be stored and sold at a later date rather than regular re-stock purchases. Regional distribution centres in France were built to hold such speculative inventory rather than to provide centralised distribution facilities as in the UK. It was estimated that in the early 1990s up to 60% of retail stock was speculative inventory. As a consequence the emphasis within the grocery sector in France was on volume discounts with retailers '*feverishly looking for the lowest purchase prices…*'. This price focused approach,

coupled with long payment delays lead to a more confrontational conflict-based type of supplier-retailer relationship in the market.

In the wake of the Kurt Salmon survey in the US, ECR Europe was created in 1993. ECR Europe defines ECR as: *"A joint initiative by members of the supply chain to work to improve and optimise aspects of the supply chain and demand management to create benefits for the consumer e.g. lower prices, more choice variety, better product availability"*. A series of projects and pilot studies were commissioned with fourteen improvement areas (Figure 1.2) identified around the themes of category management, product replenishment and enabling technologies. Many of these have direct or indirect implications for retail buying.

Figure 1.2 Initial ECR Europe Improvement Areas

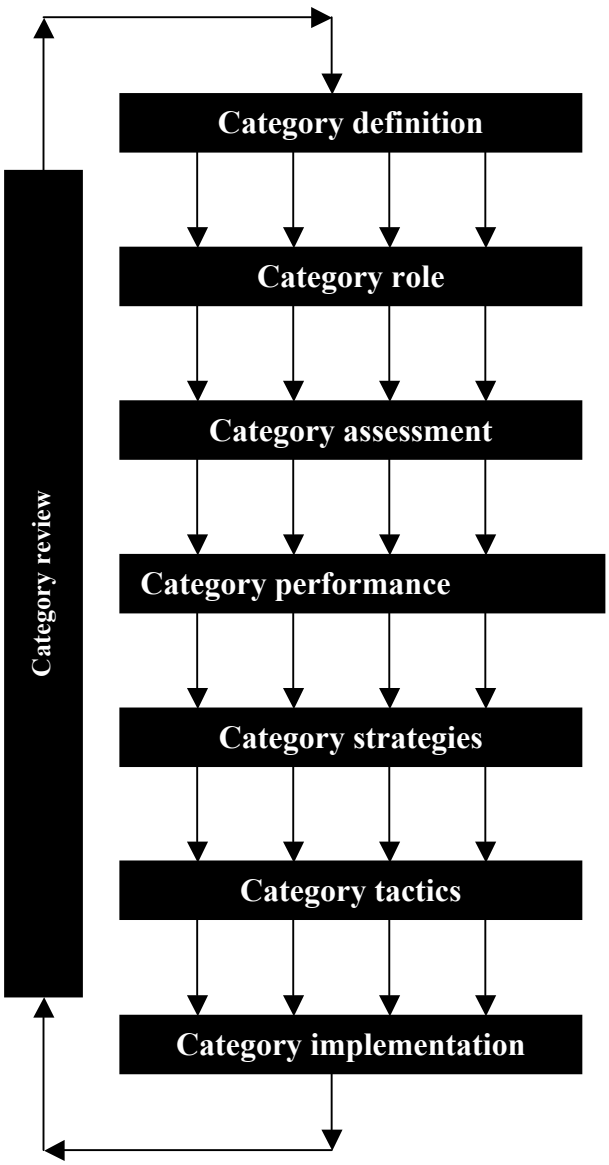


Source: Coopers & Lybrand (1996).

Most companies initially focused on supply side initiatives (product replenishment improvements) tackling the demand side issues later (category management). Coopers and Lybrand (1996) estimated that category management initiatives would generate the greatest

savings because of concerns over new product introductions and the costs associated with promotions. One of the key aims of supply chain management is to reduce disturbances, such as failed new product launches and price promotions, in the channel. Better co-ordination of such activities improves their effectiveness and their cost-effectiveness. Understanding the total product category therefore becomes fundamental (Figure 1.3) to ensure this is achieved.

Figure 1.3: The Category Management Process



Category definition: to determine the products that make up the category and its segmentation from the consumer's perspective.

Category role: to develop and assign a role for the category, based on a cross-category comparison considering consumer, market and retailer information.

Category assessment: to conduct an analysis of the category's subcategories, segments etc, by reviewing consumer market, retailer and supplier information.

Category performance measures: to establish the category's performance measures and targets.

Category strategies: to develop the marketing and product supply strategies that realise the category role and performance objectives.

Category tactics: to determine the optimal assortment, pricing, shelf presentation and promotion tactics that ensure the category strategies are implemented.

Plan implementation: to implement the category business plan through a specific schedule and list of representatives.

Category review: to measure, monitor and modify the category business plan on a periodic basis.

Source: Mitchell (1997).

For either category management or product replenishment initiatives to work, enabling technologies have to be in place. For category management to succeed, loyalty card and

EPOS data give indications of what is being bought, when, where and by whom so that appropriate category plans can be drawn up. As information flows back through the supply chain – in a demand driven approach - it is essential that it is standardised and comprehensible to all partners in the supply chain. Protocols in relations to EDI networks, item coding and database management are necessary to ensure that a breakdown in communications does not occur. Similarly, it is important that standardisation occurs with materials handling technologies to improve efficiencies in product handling and maximising unit loads (for example, standardisation of pallet size and returnable trays to an agreed industry norm).

The initial approach to ECR outlined in Figure 1.2 has been revised, given that the area of enabling technologies is being reconstructed. Whilst EDI and EFT were relatively new in the 1990s they are now proven base technologies supporting the data transmission process, internet based communications strategies are now replacing them, allowing for further collaborative development. ECR Europe describe the emergence of Collaborative Planning Forecasting and Replenishment (CPFR) and the interest in retail internet exchanges (e.g. Agentrics) as a fourth element of ECR, namely the integrating elements. This revised approach to ECR is shown in Figure 1.4. In contrast to Figure 1.2, which is the original incarnation of ECR, the current approach focuses on aspects of supply <u>and</u> demand management and on technological enablers <u>and</u> integraters.

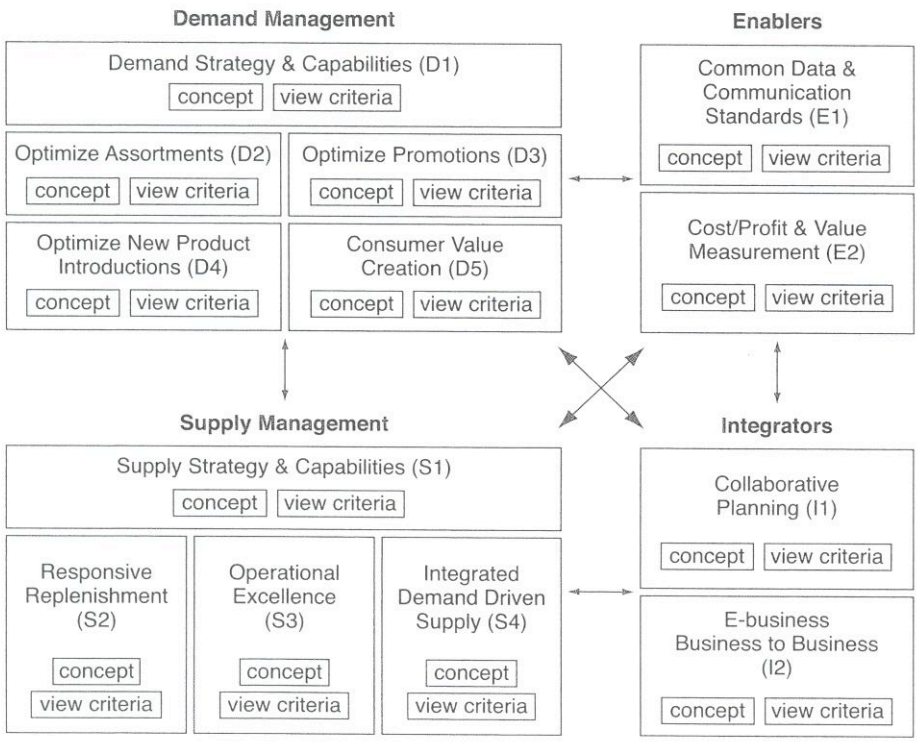
Kotzab (1999), provides a critical review of ECR, and highlights the variability in returns that might be expected by different companies. It is clear that gains may be better if the starting position is not very advanced. In addition to company differences there are also country differences. It is perhaps no surprise that these initiatives originated in the USA given the supply chain challenges they faced at the time. Mitchell (1997) highlights the differences in trading conditions between the US and Europe, he states that:

- the US grocery retail trade is fragmented and not as concentrated as in parts of Europe;
- US private label development is primitive compared with many European countries;
- the balance of power in the manufacturer-retailer relationship is very different in the US compared with Europe;

- the trade structure is different, wholesalers play a more important role in the US;
- trade practices such as forward buying were more deeply rooted in the US than Europe;
- legislation, especially anti-trust legislation, can inhibit supply chain collaboration in the US.

These distinctions may act as 'brakes' on supply chain management initiatives and demonstrate how international retailing, through processes of knowledge exchange and knowledge transfer, may become a driver for change.

Figure 1.4: Revised ECR Concepts



Source: www.ecr-sa.co.za

ECR initiatives are not a panacea for all companies. The improvement areas provide a range of initiatives from which companies will choose according to their own particular objectives. Each company will have a different starting point and a different agenda depending upon the current nature of supplier-retailer relationships. However these different initiatives,

underpinned by a different perception of the channel, have implications for the way retail buying operates.

1.7 The Evolution of Retail Buying

With its origins firmly rooted in the industrial buying behaviour approach, it is perhaps not surprising that most existing research into retail buying has focused on a "traditional" linear and relatively static model of retail buying. The focus has been upon identifying stages in the process, the criteria used in decision making, the nature and behaviour of the decision making unit, and the contextual issues which may shape – and explain differences – in these features.

That said, it is now recognised that changes in the way retailing operates, the focus on a consumer driven approach, and the enabling role of information technologies have changed the basic parameters of the retail buying process. A broader, more holistic, process assuming increased responsibility for selling not just for purchasing has emerged, and the inherent dynamism of a process embedded on relationships within and external to the organisation has been reinforced.

2. THE TRADITIONAL ROLE OF THE RETAIL BUYER

Whilst the role of the retail buyer and the tasks comprising the buying process have now evolved into areas traditionally regarded as the "commercial" or "operational" domains, the core element of the buying process remains the selection of products and suppliers. This entails a number of "traditional" retail buying activities essentially involved with product and supplier selection.

2.1 Gathering Buying Information

The assembling of data relevant to the buying task is a critical first step prior to determining the assortment of products to be bought or the sources of supply. All retail buyers need to have some form of system in place to gather data, especially prior to purchasing new lines. This part of the buying process will be conducted with other members of the immediate DMU, possibly with the additional involvement of designers, marketers etc. Information is available from both internal and external sources.

Internal information sources include: product sales history, for example which pack sizes, variants, brands etc. sold the most in the previous trading periods; current supplier performance history *vis à vis* delivery accuracy, timing, quality, returns, co-operation and communication; in-house trend analysis and consumer panels / test marketing. Many grocery retailers for example, tests new recipes for ready made meals by assembling focus groups in stores sounding out opinions after a tasting session. This consumer involvement or endorsement of product selection may be signalled in the case of private brand ranges by sub-branding via "Selected by You" ranges.

External information sources include: listings of potential suppliers / available brands, drawn from business directories, and previous knowledge and experience; proprietary trend / design / market research organisations who specialise in retail analysis; trade and consumer publications and trade shows; and competitor shopping. Shopping domestic competitors provides price comparisons and enables buyers to observe if a competitor has introduced an innovative new line. Similar exercises in foreign markets provides ideas for new products which can then be developed by designers and others for the buyer to source.

2.2 Product Selection and Product Development

Product selection and product development represent the core of the retail buying task. Swindley (1992) stated that most buyers were involved in product and packaging decisions, new product launches and quality control, but added that the broader issues of *which* product categories were to be carried were usually undertaken in conjunction with other functional departments within the organisation, such as marketing. Wills (1999) and Varley (2001) characterise the "modern" buying process as revolving around the broader concept of "product management".

A number of different studies have sought to identify the product selection criteria used by buyers when making decisions. Nilsson & Host (1987) reviewed 34 studies and identified almost 400 criteria, although potential sales delivery and financial terms were of particular significance. Many of the same criteria emerged from a broader survey of industrial buyers conducted by Weber et al (1991). Shipley (1985) identified a blend of product quality, price and delivery performance as key criteria, whilst Moller (1985) identified price and technical thresholds that prospective suppliers needed to meet before even being considered as key criteria. Swindley (1992) highlights profit and sales criteria, plus delivery time and quality, and in the USA, McLaughlin and Rao (1991) identified potential gross margin, vendor effort (test marketing, promotion activities) and bill-back provision, alongside expected category growth. They also noted that different product categories where evaluated differently. Banting and Blenkham (1988) add mark-up, competitive prices, supplier reputation, image and products related to new trends. McGoldrick and Douglas (1983) identified reliability of supplier, brand quality and delivery as important in grocery buying, whilst trade incentives were low on the list of key criteria. In New Zealand, Thomas and Marr (1993) exploring new product evaluation found that "hard" objective product orientated criteria (eg financial aspects, profit and sales, promotional activity, availability) dominated the list (56%) but that "soft" subjective non-product criteria (eg knowledgeable presenter, feel for the supplier) were more influential criteria (44%) than anticipated.

More recently Varley (2001) identified the following criteria:

- *Physical properties* - the tangible aspects of the product, including size, weight, components or ingredients. It is likely that such properties will relate directly to consumers' perceptions and evaluations of the product;

- *Packaging* – which performs a number of functions, including protection, aesthetic appeal, and a contribution to brand identity;
- *Style* - product styling and design has historically primarily been relevant to overtly fashion driven sectors such as clothing. However, increasingly design is relevant to many more product categories, including grocery;
- *Utility* - a product's utility is concerned with its performance. Issues such as maintenance, durability and health and safety concerns are relevant to consumers and therefore should be relevant to retail buyers also;
- *Product quality* - is determined partly by physical properties, but also by intangible attributes such as branding and ethical issues. The debate in the UK over genetically modified (GM) ingredients in food is an example. Concerns over GM led to grocery chains developing GM-free product lines. Whilst the decision to remove GM lines would have been made by senior managers, the implementation of a new set of criteria for product ingredients would have been the category buyer's responsibility. Quality control (QC) may also be a task of the buyer, but in many large retailers it is now a separate department. Product inspections take place on a number of different occasions, for example during the manufacturing process, at the warehouse after delivery and on-site at stores once merchandise has been distributed. QC is also linked to product specification, which tends to be retained as a buying function since it forms part of the product development and negotiation process. Specification is of particular importance with regard to private brand products, for example with regard to such issues as: labelling; components; and process elements.
- *Branding* - is a critical element in overall retail marketing strategy. To the customer, it is an intangible product feature, but one that has considerable relevance to a potential purchase decision. The extent to which consumers display brand loyalty for a product category has important implications for the retail buying process. For private brands the retail buyer is invariably more than just a product selector and the buying centre will almost certainly contain designers and other specialists;
- *Price* - is a tangible feature of the product, but the extent to which it offers value to the consumer is intangible. Pricing and its relationships to costs, however, is critical to achieving the financial objectives of the retailer.

Skytte and Blunch (2001, 2005) report the findings of the most comprehensive survey of retail buying criteria in Europe. Drawing on previous reviews of buying criteria, they refine the extensive lists to a number of key criteria:

- product quality, including consistency of supply and consumer informed product development;
- traceability, guarantee of breeding\feeding conditions;
- price, relative to the market average
- supply, particularly the ability to supply sufficient quantity to meet the chain's demand;
- promotional activities, producer support for advertising, in store promotion etc
- product range, the ability to supply a broad range of products within the category;
- long term orientation, the interest of the supplier in long term relationships with the retailer
- producer reputation, amongst retailers
- nationality, the origin of the producer – a country national or a foreign producer with a national sales office.

Compared to previous lists, physical distribution attributes such as lead time, delivery reliability, order accuracy etc were omitted as these appeared to be taken for granted criteria. In contrast the "new" criteria were seen as the ability to supply the whole chain (reflecting perceived challenges for smaller suppliers as chain networks had expanded) and depending on the product, a preference for a national or nationally represented supplier.

Whilst a number of similarities in the criteria were identified across three product groups: fish, cheese and pork, Skytte and Blunch concluded that a number of "core" criteria eg quality, product consistency, promotion, range of products and price (possibly owing to high levels of transparency in non-processed food markets) were taken for granted. Consequently: *"nowadays, food manufacturers must respond to new and additional aspects of the exchange process if they wish to keep their current retailers and to be listed by potential customers. In brief, it could be said that these changes have appeared due to changes in the retail structure, changes to the technology used by retailers, still more intense competition between the*

chains, changes in the trade buyers' interpretation of what consumers expect from the chains, and more explicit positioning by the retailers" (Skytte and Blunch, 2005)

These new aspects were seen as :

- sufficient quantities to supply whole chain - not a problem in the past when chains were relatively small;
- supplier interest in long-term relationships with the retailer – which requires a change in attitude and a greater understanding of what retailers want
- possibility of traceability back to the primary producer – consumer demands and perceptions mean that suppliers must cooperate vertically back in the channel
- supplier presence, one way or another, in the retailers market – if not national ideally must have plant or a presence in the country.

Many of these criteria can essentially be regarded as various aspects of relationship building.

Finally, using means end chain analysis to explore the views of fish and pork buyers in Denmark and Germany, Skytte and Bove (2004) emphasise how buyers, via their views on decision criteria attempt to interpret consumer needs in an attempt to position their company relative to competitors: *"It is important for food producers that they do not concentrate solely on the product attributes when they want to sell their products to the retail chains. It is equally important that they try to understand the retail chains consequences and values. With respect to the consequences for the chains, it is important for producers to understand that buyers form their beliefs on interpretations of consumer buying behaviour and subsequently act on these beliefs. It is on the basis of their activities reliant on these interpretations that they seek to attain their own values."* (Skytte and Bove, 2004)

As with the tasks and role of the retail buyer, these various studies suggest that the criteria used by buyers are also evolving, with a greater emphasis on consumer-driven market related aspects entailing more elaborate (beyond simple transaction based attributes) relationships with suppliers. The traditional "core" attributes such as quality, price etc are still relevant but are taken to be base expectations.

A number of authors suggest that the emphasis placed on the above criteria by the retail buyer will vary by market sector and product category, depending on their perceived importance to a retailer's customers. Fairhust and Fiorito (1990) also make an interesting observation about the importance of the criteria by which buyers themselves are evaluated\appraised in determining key criteria used by buyers, and Davies (1995) suggests that personal characteristics - such as age, qualification and experience - influence the buying process, with younger less experienced buyers focusing on net margins rather than sales volume. In a similar vein, Neu et al 1988, explored the importance of gender and its influence upon negotiation performance and behaviour, but the influence was weak

2.3 Sourcing and Supplier Relationships

The vast majority of grocery retailers do not manufacture all of the products they sell and therefore need to source them from different suppliers. The nature of the supplier will, as with so many issues in retail buying, be dependent on both the merchandise strategy and the size and structure of the retailer.

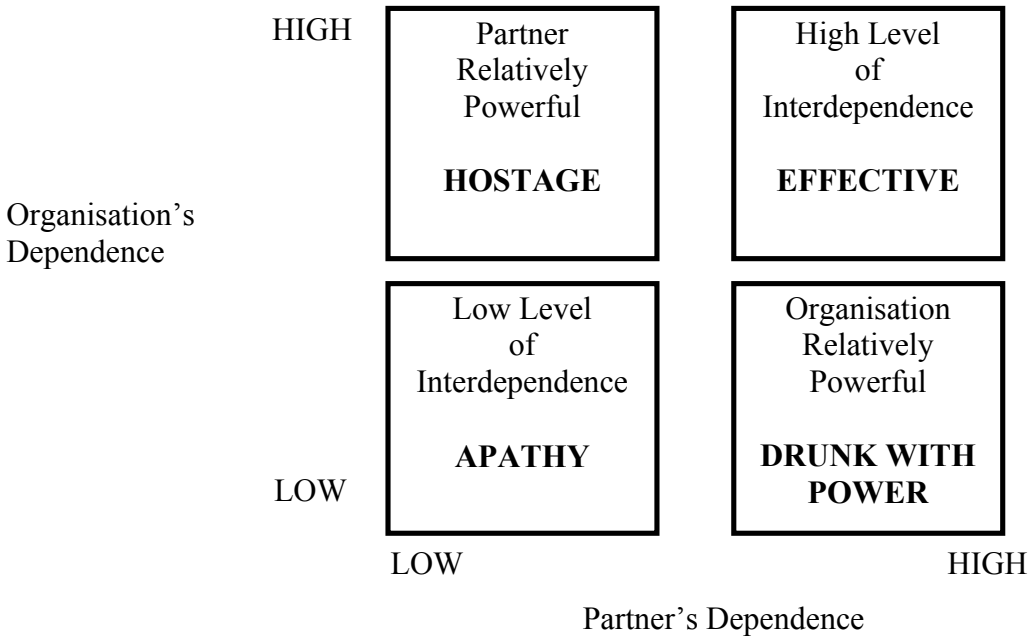
Essentially the choice of supplier and the type of methods by which products are sourced revolves around the power relationships that exist in the supply chain. The consensus is that retailer-supplier relationships have changed in nature over the past two decades, in line with the general adoption of the relationship marketing approach to business-to-business exchange (Gummesson, 1996). This has seen relationships move from a transactional to a relational approach, from short-term to a long term, mutual benefit perspective, from adversarial to relational exchange, and from arms length negotiations to partnership (Araujo et al 1999, Kalafatis, 2000). However, reality does not always match the theoretical ideal, in most retail-manufacturer relationships there is an imbalance in market power, and as organisations are motivated by self-interest, relationships are not equal, benefits are not evenly shared, and abuse of market power and opportunism persist (Palmer 2002). True 'partnerships' are scarce due to inequities in the dynamics of power and dependency (Hogarth-Scott, 1999).

Whether a collaborative or a confrontational ethos exists between retailers and suppliers, the buyer's role is important in negotiating both individual purchase contracts and ongoing trading terms. However, very little academic literature exists which examines retail negotiation.

The literature on channel relationships emphasised conflict rather than cooperation until the late 1980s when associative relationships, became more prominent (Dawson and Shaw, 1990).

As relationships became more planned and co-ordinated under the collaboration model, trust became a key criterion. After analysing 400 separate manufacturing-retailer relationships Kumar (1996) claimed that relationships needed to move from *'the power game to the trust game*', and he developed a typology based upon the levels of interdependence (Figure 2.1). Companies should aim to achieve the 'win-win' quadrant (top right) whereby trust was highest, conflict lowest and interdependence was strong. However, Kumar conceded that there are inherent tensions in any relationship and limits of trust are inevitable.

Figure 2.1: Effects of Interdependence within Relationships



Source: Kumar (1996).

Coopers & Lybrand (1996), highlighted how some of the typical characteristics found in 'traditional' more adversarial relationships needed to be transformed in new partnership-style relationships (Figure 2.2). This involves moving from:

- adversarial to collaborative relationships;
- a focus on price to a total cost approach;

- a short to a long term perspective;
- many to a few key suppliers;
- just in case to just in time;
- traditional organisational structures to cross functional structures

Figure 2.2 Changing Relationships between Manufacturers and their Suppliers

CURRENT RELATIONSHIP	**TARGET RELATIONSHIP**
· Adversarial relationship · Price · Many suppliers · Functional silos · Short term buying · High levels of just in case inventory · Expediting due to problems · Historical information · Short shipments · Inefficient use of capacity	· Collaborative relationships · Total cost management · Few 'alliance' suppliers · Cross functional · Long term buying · Compressed cycle times and improved demand visibility · Anticipating due to continuous improvement · 'Real Time' information (EDI) · Reliability focus · Run strategy and synchronisation

Source: Coopers & Lybrand (1996).

A clear trend in the 1990s was for retailers to move towards engaging fewer suppliers, with whom they held exclusive relationships and through which they worked in dedicated partnership (Rademakers and McKnight, 1998, Fearne & Hughes, 2000; Hingley 2001). Critics suggest that whilst this may provide short-term gains for preferred suppliers, it is easy for suppliers to become locked into a cycle of efficiency gains and price (cost) led competition, as the relationship tends to remain asymmetric – a retailer may survive without a supplier because of the width and breadth of product ranges, but a supplier may struggle if a key retail account is lost (Collins & Burt, 1999)

The role of super-middlemen in the grocery supply chain has grown as a consequence of supply base rationalisation. Tasks and responsibilities have been devolved to these agents

(Hingley, 2005) who assume responsibility for continuity of supply – so in effect some of the procurement decision is devolved to the lead supplier in a category. *"The super middleman will often lead all suppliers in a given category, making sure that, for example, livestock welfare and a host of technological items are looked after as well as assuring the continual delivery of high quality agri-food produce".* The super-middleman may also deal with complimentary customers, such as the food service industry, as well as the retail customer. Non-category leads in effect become contract suppliers with reduced direct contact with the retailer.

Category management (CM) has also become common in the retail grocery sector and has implications for the retailer-supplier relationship. CM has been defined as '*a retailer-supplier process of managing categories as strategic business units, producing enhanced results by focusing on delivering consumer value'* (Friedman, 1996). A category is described as a distinct group of products or services that consumers perceive to be interrelated and/or substitutable. CM usually requires merging several departments into a single unit responsible for sales and profits. Integrated information technology supports planning, buying, merchandising, pricing, promotion planning and shelf management. CM facilitates greater levels of cooperation and collaboration, but the process requires a fewer suppliers as the focus is on consistency and overall category development and profitability, rather than continual management (renegotiations) of numerous suppliers. Critics, such as Dapiran and Hogarth-Scott, 2003) suggest that CM does not necessarily facilitate relationships, but reinforces dependency. A preferred\lead supplier takes more responsibility for the overall category.

When suppliers take on preferential status with a retailer, they may in effect: "*give up the right to price negotiation in return for exclusivity. Retailers' therefore, determine price, but preferred suppliers are rewarded with market share gains and the ability to lead a wider network with opportunities to add value. Supplier profit margins are to some degree sacrificed for increased turnover, exclusivity and access to wider network arrangements and spin-off business associated with a retail customer (for example, in international markets)".*
In parallel with the super-middleman, innovative and very specialist suppliers may also deal directly with a retailer – these suppliers provide retail market differentiation and flexibility, and their small size is an advantage rather than a hindrance (Blundel and Hingley, 2001)

2.4 Changes in the Traditional Buying Role

At its simplest level, retail buying is involved with the sourcing and purchasing of products for resale, typically by the commercial or operational parts of the business. Core retail buying activities under this definition may then be "stripped back" to selecting products and suppliers on the basis of information gathered, informed by knowledge and experience. Technology based systems within grocery retailing now generate a plethora of data on the sales and relative performance of individual product lines within categories. This information is increasingly being shared within the channel between different actors as part of a changed perception of how a channel operates most effectively.

Researchers have generated long lists of decision making criteria interpreted by retail buyers in selecting products (and suppliers), recognising that the importance and application of criteria differ with a range of contextual factors. There appears to be a general recognition that whilst still key criteria, a number of "traditional" criteria (price, quality, distribution capabilities etc), are increasingly taken as a given and are becoming "base criteria" or generic expectations in the buying process, and a greater emphasis is being placed upon a range of more "value-added" criteria aligned with customer needs and perceptions. The latter are often less objectively measurable and reply more subjective interpretation.

Alongside the choice of product and supplier, driven by the move towards customer driven supply chains, traditional behaviours and attitudes within supplier networks are changing as are the configurations of channels themselves. This has implications for the buying process and the behaviour and implementation of buying policies.

3. BROADENING THE RETAIL BUYER'S ROLE

The scope of retail buying today extends from product conception through to the purchase of the product by the end consumer. Consequently the interaction of the traditional buying team with other retail functions, in particular the relationships between buying, marketing and store operations are crucial. IT systems provide (or should provide) an integrative role between the buying department and the 'front-end' (customer-facing) retail functions. Additionally, IT systems are increasingly linking buying to 'back end' (supplier-facing) elements of retailing, such as stock replenishment and logistics.

The extent to which there is direct involvement by the buying team in influencing or administering some of the functions and tasks discussed in this section will depend on the size and structure of the retailer concerned. Whilst buyers for small-scale retail companies and department stores may be directly engaged in, for example, space management or promotional activity, this will not be the case for buyers in many larger multiple retailers.

3.1 Merchandise Strategy

Corporate strategic decisions underpin the planning process for the buying task. Relevant issues that need to be considered include corporate decisions concerning: the segmentation and targeting of customers; positioning and differentiation from competitors; and approach to store brands. Taken together, these parameters constitute a retailer's merchandise strategy, and the retail buying process ultimately represents the implementation of this strategy.

Once a retailer's overall merchandise strategy has been formulated, a framework can be developed that enables more detailed merchandise planning. All retailers will organize their buying activities around groups or categories of products to maintain order in the buying process. The planning levels that apply will vary according to the size and type of retailer, and the merchandise sold, but typically include consideration of merchandise groups and departments; categories; and stock keeping units (SKU).

Three important concepts should be considered in the development of merchandise plans.

- *Product proliferation* - in most merchandise areas, retailers face an increase in the variety of products they can offer. The more diverse the customer base, the larger the number of individual products (SKUs) that must be carried. This growth reflects the

increased demands of consumers and their expectations of greater choice and variety across product categories;

- *Range planning* - considers the width, breadth, depth, and variety of merchandise carried by a store. Such decisions need to be undertaken within the context of the shelf space available and in response to customer needs. *Width* or *breadth* relates to the number of categories that are found in the merchandise group. *Variety* is the number of different lines a retailer stocks, and *depth* or *assortment* relates to the number of SKUs within a category, such as the sizes, flavours etc within a particular generic class of products. For example, a typical UK grocery superstore carries upwards of 20,000 individual lines, while a European 'hard' grocery discounter carries only 600 to 1,000 items;
- *Life cycle considerations* - all merchandise classifications even in grocery have a product life cycle. In buying terms, this is the period of time over which a particular item, or version will sell well enough to provide the retailer with a profit. During each phase of the life cycle change will often take place in three factors: the price, the number of manufacturers, and the product itself. Four principal time/sales variations are common:
    - *Fads*: these products generate high sales for a short period of time. They often appear illogical and can be unpredictable. The art of managing a fad is recognizing it in its earliest stages and ideally locking up distribution rights before a competitor. Though potentially very profitable, fads are a very risky business and require the constant attention of the buyer. Frequently, fads in grocery retailing are linked to news items, television programme (such as cookery programmes) or films, with each product helping to promote the other.
    - *Fashions*: these products typically last several seasons. They are often linked to the same stimuli as fads, but popularity (and sales levels) persist over a longer time period;
    - *Staples/Basics*: these products are in continuous demand over an extended period of time. Many grocery lines (salt, butter), household products (washing-up liquid, bleach), and some clothing items (hosiery, jeans), can be considered staples. However even these items can be susceptible to longer-term changes in demand. For example, as eating habits have changed, the demand for red meat

in the UK (traditionally regarded as a staple item) has reduced in favour of white meat, fish and vegetarian options.

- *Seasonal Merchandise*: these products generate sales that fluctuate dramatically according to the time of year. Often these products are related to events (Christmas, Easter, Halloween, Mothers Day). Staple merchandise can have seasonal influences eg BBQ items, ice cream and salad vegetables.

Ultimately the trade-off between variety, assortment, and product availability is a strategic decision. Of these variables, Levy and Weitz (2004) argue that variety is the most important in defining the retailer in the customer's eyes. In attempting to determine the variety and assortment for a product category, the buyer and merchandiser must consider the profitability of the merchandise mix, the corporate philosophy toward the assortment, the physical characteristics of the store and the degree to which categories of merchandise complement each other.

3.2 Merchandise Management

Merchandise management in the narrow sense focuses on the planning and controlling of retail sales and inventory. It can be defined as the acquisition, handling and monitoring of merchandise categories in a retail organization. Clearly the buying process has a role in this task

In larger retail organizations the responsibility for planning and controlling the buying task is often split between the buyer and a 'merchandiser'. The merchandiser often has significant power, with equal status to the buyer in many companies. The merchandiser works closely with the retail buyer in setting goals and objectives for the department or category. Four merchandise management tasks that are typically undertaken in large-scale retail organizations:

- *Establishing a merchandise plan* - requiring sales forecasts at department, category and line (SKU) levels. The buyer translates financial projections into actual purchases and may have responsibility for allocations between specific items\variations at SKU level. Actual sales are monitored and sales and stock forecasts adapted against the initial plan. Especially important in terms of profitability are projected and achieved gross margins and considerations of any markdowns, promotions and stock disposal.

Grocery (and increasingly some non-food) buyers use category management to develop the assortment and drive the budgetary process.

- *Ensuring product availability* - sometimes described as 'service level' is another consideration in assortment planning. This is the percentage of satisfied demand for a particular SKU. An important merchandising management task is to balance between high levels of availability, which will require a high back-up stock, and low availability levels, where 'stockouts' are frequent and customers are unable to make purchases because too little stock is being held.
- *Monitoring the performance of suppliers* - this may be done on an '*ad hoc'* basis or through means of 'vendor analysis', whereby issues such as the accuracy of the order delivered, conformity to delivery date specified, product quality and other variables are assigned weightings and charted to give an overall profile of a supplier. Such information will be used when a retailer seeks to periodically change their supplier base.
- *Managing the physical distribution of stock* - merchandisers frequently have the responsibility of stock control, at least in terms of the distribution of merchandise. This may entail using sales data to assist in store re-ordering / replenishment, especially if adjustments to automatic systems are required; and placing repeat orders if a line is selling well, sometimes with minimal involvement from the buyer.

Historically, when the buying function typically occurred at store level, merchandise presentation, space management and display were the responsibility of the retail buyer. For some retailers, especially small scale owner-managed outlets, it is still the case that the buyer's role covers both the procurement of merchandise and the management, presentation and selling of stock. As larger retail chains became established, most buying and merchandising functions were centralised. The buyer was responsible for sourcing product and negotiations with suppliers, the merchandiser was instrumental in deciding how much to buy, which lines went to which stores and in what quantities, whilst decisions on stock presentation and display remained the remit of store or departmental managers and sales people. Areas of responsibility were clearly defined.

However, the development of information technology in retailing has led to a blurring of these responsibilities, with an increasing tendency for presentation, display and space

allocation of products to be governed by centrally-managed systems. Such systems may or may not be controlled directly by the buying and merchandising department, but members of the buying team will certainly have substantial input, alongside store operations, distribution and IT personnel. The first stage in the development of integrated retail IT systems was the instigation of EPOS networks, which allowed managers to quickly and accurately collect data on what merchandise had sold, particularly important for large multi-store chains. The linkage of EPOS data to replenishment, reordering and thence to range planning and forecasting sales and inventory levels was the next stage in connecting retail IT systems between store-based functions and buying and merchandising.

Closely allied to the optimisation of ranging and volume of stock carried at individual branch level has been the development of systems to plan the space allocated to particular merchandise categories, right down to stock-keeping unit (SKU) level. Space planning software systems are myriad, reflecting the diversity of requirement between food and non-food product sectors, the number of stores a retailer has and the different sizes of store in a given retailer's estate. All these systems allow space planners to develop planograms (visual representations of fixtures, showing SKUs as they will be presented in-store). Increasingly, space planning systems are being linked to decisions regarding merchandise display, another task that has traditionally involved the buying team. Visual merchandising software offers an interface between these two functions.

3.3 Product Pricing and Promotions

Whilst overall retailer pricing strategies are likely to be determined at a level more senior than that of the buyer, on a day-to-day basis decisions regarding selling prices are likely to be the responsibility of the buying team, with price adjustments (most frequently markdowns) being used to stimulate the right levels of demand for changing market conditions. Margin in particular (whether defined in cash or percentage terms) is invariably a key performance indicator for buying personnel.

Setting individual prices for items and the establishment of price lines requires experience and skill. When pricing merchandise, consideration must be given to how an overall range will sell. The volume of goods sold over a given time period must be high enough to cover merchandise costs, operating expenses, generate a profit, and take account of possible

reductions, shortages, and discounts to employees. Variations in pricing occur because there are uncontrollable factors that influence pricing decisions.

The criteria for pricing the merchandise assortment are complex. In addition to the factors directly associated with pricing decisions, the buying team has to deal with and adjust to the impact of inflation, recession and other national and local economic variables. Not only can these factors affect pricing in a direct sense, but also indirectly through their effect on the consumer's disposable income and the general demand for merchandise in the market.

The retailer will have an overall pricing policy aimed at the market, which will have been communicated to the buying team. The main objective of the buyer and merchandiser will be to maintain a consistency of market appeal in quality, assortment, and pricing across various related departments or demand centres, as well as over a period of time.

Not infrequently the policy will call for several price zones in any given category of the assortment, such as 'good', 'better', and 'best' price zones. Within each of these price zones are ranges of price lines from the lowest price in that zone to the highest price. The strategy of EDLP (everyday low price) effectively offers a uniformly low 'price zone' for a particular category or entire merchandise assortment. The implication of this is that consumers benefit in the long run from a reduction in the purchase price of goods gained through more efficient buying and distribution practices.

The pricing component of any assortment plan must be flexible and dynamic. If products are not selling quickly time must be spent analyzing the cause and then if required, goods must be marked down. Slow sales might be attributable to a number of problems, however, such as poor merchandise selection, inappropriate pricing, a lack of consumer interest or the weather. Thus care must be taken with the timing of markdowns, since they can raise customer expectations of lower prices – leading to a spiral in which consumers are reluctant to pay full price.

Competition on price has been particularly intense in the grocery sector in most markets over the last few years, this has squeezed retailer gross margins and fuelled buying initiatives such as online auctions. A related issue is the use of temporary discounts and price reductions by retailers. This is a frequently used retail marketing tool that if not initiated by the buying

team, will almost invariably be linked to the negotiation of 'deals' with suppliers. Some retailers have recently become very sophisticated in the way they manage pricing at store level, utilising techniques such as 'dynamic pricing' and 'price flexing' In the UK, Tesco's expansion into the grocery convenience store sector has brought this issue to the fore, since the company frequently charges higher prices for certain goods at its smaller 'Express' outlets compared with its large, out-of-town supermarkets.

Product promotion, whether it occurs outside or inside the store, involves the selection and projection of specific products in order to attract customers and thereby help to achieve the retailer's overall sales and profitability targets. For many types of retailing, the buying team has a significant impact on retailer promotional activity, since the products sold by a retailer often constitute the core of what is being promoted. In particular, the buying team is likely to work with the marketing team to promote new lines or brands and special value being offered to the consumer through 'sale' events, seasonal activity, or simply to generate extra volume at the expense of margin. Examples of product-based retail promotions where the buyer's influence is discernible include promotional activity focusing on special offers, e.g. 'buy one get one free' (BOGOF). Often suppliers are invited (or persuaded!) to contribute to the costs of such promotions, either by directly sharing the advertising budget or through negotiation of reduced cost prices. Frequently, (sometimes notoriously) and particularly in grocery retailing, mechanisms such as price rebates, overriders, or listing allowances, where suppliers effectively have to pay to have specific lines stocked, are used as mechanisms to facilitate promotions. Consequently it is difficult for product promotional activity in many retailers to be disentangled from pricing issues. The buying team is instrumental both in the setting of selling prices and the negotiation of supplier terms, and each of these activities will materially affect the margin.

3.4 Forecasting and Sales Inventory

An important merchandise management task is the estimation and forecasting of sales and planning required stock levels. Again within retail organizations, it varies whether the buyer, merchandiser or a combination of others perform this task. Techniques used in forecasting the demand for goods have changed considerably over time (see Alon *et. al.*, 2001). EPOS data now provides up-to-the-minute information on what has sold, at what price and in what locations. However, converting this information to purchase orders or product design ideas requires experience, creativity, and a thorough understanding of the strengths and weaknesses

of forecasting models. Such models have to forecast sales for products that have a history, as well as those that are new to the merchandiser's product selection.

Accurate forecasts can reduce over-buying, increase inventory turnover, decrease clearance markdowns, and improve customer service levels by reducing stock-outs and thus lost sales. Sales forecasting and inventory management is part of a cyclical process consisting of the following stages: forecast demand for a product; order the product in appropriate quantities; stock it in the correct retail locations; keep track of its sales and the resulting inventory levels; replenish the store inventories from either the manufacturer or the distribution centre.

The main goal of retail inventory strategy is to maximize profitability by managing the inherent tension between stocking too much and stocking too little. Retail buyers and merchandisers have always grappled with this problem, but with increased product variety and shortened product life cycles this tension has become more acute, prompting inventory management practices to evolve to meet rapidly changing market demands.

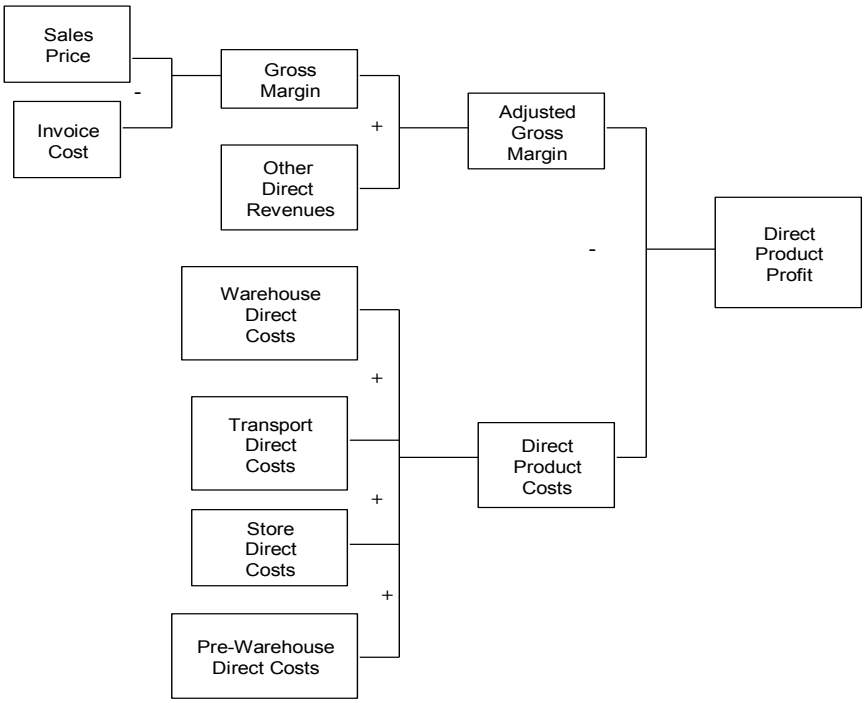
The traditional model of forecasting for retail buyers was to differentiate stores by scale, then to purchase large quantities of products and to allocate larger ranges and a greater depth of product over the spread of outlet sizes. Decisions on overall quantities were based on historical sales levels. However, this meant that early order commitments could not be amended pending new information. The risk to the bottom line was holding high inventory levels of unwanted products and stock-outs of popular items.

Today's retailers focus on continuously adjusting the supply of products offered to consumers at each retail outlet to match actual levels of *market demand*, rather than relying on historical sales. This reduces exposure to the risk of being unable to sell perishable goods. Four forecasting models are widely used by retailers. Companies may use one of these forecasting models exclusively, or use two or more in some combination depending upon the nature of the goods and the situation in which those goods are being sold:

- *Total cost fluctuations forecasting* - some retailers incorporate both direct product costs (as reflected in the wholesale prices charged by suppliers plus transportation costs), and the direct costs associated with demand uncertainty, including stock-out costs, the cost of markdowns, write offs, and inventory carrying costs into their total

cost of sourcing. The advent of fully integrated EPOS systems has facilitated this process, and allowed the application of techniques such as Direct Product Profitability (DPP). DPP is an analytical tool that allows an assessment of the total costs attributable to any individual SKU to be calculated, thereby enabling retailers to establish the profitability of each product line (Figure 3.1). DPP is used to assist decisions with regard to listing and de-listing, pricing, promotional activity and space allocation. It is particularly relevant to the grocery industry which stock large volumes of non-seasonal and\or basic, non-fashion driven lines.

Figure 3.1: Direct Product Profitability Model



- *Time series forecasting* - when organizations have detailed historical data on unit sales, time series analysis can be a useful approach to sales forecasting. Good forecasts of aggregate retail sales can improve the forecasts of individual retailers because changes in their sales level are often systematic. However, time series methods are not appropriate for retailers who schedule periodic promotional price reductions unless those promotions are held at exactly the same time every year, as during these promotional periods, unit sales typically accelerate dramatically.
- *Causal modelling forecasting* - the aim of causal modeling is to determine the time paths of the control variables (e.g., newspaper, radio, TV ads) that maximize profits.

However, because of the large number of variables that characterize a typical promotion, causal models require a large database of promotional history for model estimation.

- *Intuitive Forecasting* - experienced buyers may develop the expertise required to accurately forecast goods using intuition. This intuition is rarely an explicit approach to forecasting, but rather a collection of experiences developed by learning from mistakes that may have been costly to the organization in the past.

There are considerable differences between estimating demand for basic goods, fashion or fad items and one-time-purchases. In the case of wholly new products, most companies depend on informal forecasting. Often analogue sales data is used based on sales for similar products that have already been sold, with an assumption made that sales for the forthcoming year's new products will be similar to those for last year's new products in the same category. This obviously carries with it a degree of risk and requires a broad understanding of consumer preferences and market trends

Taking forecasting to another level requires collaboration with suppliers. As noted earlier collaborative forecasting and replenishment (CPFR) is now being experimented with by many retail firms. CPFR is a business practice that reduces inventory costs while improving product availability across the supply chain. Trading partners share forecast and results data over the Internet. CPFR technology analyses these data and alerts planners at each company to exceptional situations that could effect delivery or sales performance. Trading partners then collaborate to resolve these exceptions, adjusting plans, expediting orders, correcting data entry errors, to achieve better business outcomes.

In essence CPFR utilises internet technology and other agreed industry standards to provide better partnerships and a more transparent supply chain. Initial experiments in the USA with manufacturers such as Nabisco and Sara Lee and retailers such as Wegman's and Wal-Mart saw category sales rise as inventory fell sharply. There are similarities with Wal-Mart's RetailLink system, which Wal-Mart suppliers are obligated to use to help them supply Wal-Mart. It is a short progression from RetailLink to more open CPFR and more open 'partnerships'. In to this scenario, global retail exchanges (Agentrics) have emerged offering such benefits, tools and other opportunities.

3.4 Financial Objectives and Monitoring

Increasingly buyers need to understand financial issues, since their decisions over sales, stock levels, margins and mark-downs will have a direct impact on profitability. The key financial ratios related to buying are:

- *Inventory (or stock) turnover* - is the number of times, on average, that inventories 'roll over' or 'cycle through' the department during a year. This ratio can be calculated using the company's cost of goods when sold, or the retail value of goods sold, whichever is more convenient for the company. A higher turnover rate means saleable, fresh, and liquid inventory. Too slow a turnover rate means too much inventory for the sales capacity of the business. Norms for stock turn will vary according to the type of retailer product and between categories.
- *Gross margin* - is the difference between net sales and the cost of those sales. Margins are calculated for a given period of time. They can be expressed as a cash figure, or more often as a percentage of sales. The gross margin figure may suggest that the company is under-performing in terms of its product sourcing: either it is paying too much for items against its industry competitors, or it is buying the wrong lines and is having to mark them down. A key task of any buying team is to enhance gross profit since this will have a direct impact on the perceived success of the retailer. There are two main ways in which this can be achieved, by selling more merchandise at regular or by improving the cost price of goods sold by better negotiation and / or the use of new merchandise resources.
- *Net margin* - also referred to as net or operating profit, is gross margin less operating expenses. This shows how well a firm manages the activities that affect its income. It is also an important component in return on investment. However, whilst owner managers and buyers in small-scale retailers might have some control over net margin, in most larger retailers many of the factors affecting it, including salaries, administrative costs and frequently marketing and distribution expenses, are unlikely to be influenced by the buyer.
- *Gross Margin Return on Inventory Investment(GMROI)* - Buyers and merchandisers generally have control over gross margin, inventory investment, and markup percentages, thus this ratio has meaning in measuring merchandising performance. It is important to use a combined measure so that departments with different margin /

turnover profiles can be compared and evaluated. For instance, within a grocery retailer, some departments (such as wine) are high margin/low turnover, whereas other departments (such as dairy products) are low margin/high turnover. If the wine department's performance was compared to that of dairy products using inventory turnover alone, wine would not fare well. On the other hand, if only gross margin was used wine would be the winner. GMROI is used as a return on investment profitability measure to evaluate departments, merchandise classifications, vendors and SKUs. It is also commonly used to evaluate the buyer's and the merchandiser's performance

3.5 Expanding the Buyers Role

Alongside the core elements of the retail buyer's role, the modern retail buyer – or perhaps more accurately the modern retail buying process – requires involvement in a range of activities and tasks previously regarded as the domain of the commercial parts of the retail operation. The buying process, as such, has in essence become a process of product management – encompassing buying but also aspects of selling the product. This requires consideration of functions, tasks and activities associated with merchandise management, sales activities including pricing and promotion, inventory management and sales forecasting and monitoring.

Retail buying is no longer simply concerned with the sourcing and purchasing of products for resale, but also with ensuring that these products are sold and that consumers' needs and wants are fulfilled.

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