UNIT 17 MONITORING AND CONTROLLING RETAIL OPERATIONS

Objectives

After going through thus unit, you should be able to

- understand the need of controlling in retail operation;
- understand the concept of merchandise decision matrix;
- implement the merchandise matrix in different kinds of retail formats;
- understand the need for category management in organized retailing;
- analyze the importance of planning in organised retailing;
- understand to use the different kinds of ratios in performance analysis;
- measure and monitor performance of one retail outlet to another; and
- understand the methods of monitoring retail outlets by maintaining uniformity.

Structure

17.1 INTRODUCTION

As you are aware that every business needs to be closely monitored and effectively controlled for the purpose of growth and developments, this approach assumes significance in retail business as the retailer, face the challenges of increasing competition, shrinking margins, and economic slowdowns are bringing about changes in thinking and the way they do business. Some retailers are beginning to take a much more serious look at managing the top line, and are showing the benefits. Controlling is the follow-up function of retail management. This is when the actual performance is compared with planned performance to spot and evaluate deviations or corrections, if any.

The retail industry covers numerous market segments and differing business needs. But one critical point unites the retail world: high overhead and narrow profit margins make customer retention a key factor in a retailer's bottom-line performance. And because today's savvy customers demand positive, personalized service, choosing the right technology - at the right price - can mean the difference between business success and business failure. Looking for emerging technologies to meet their needs, successful retailers will choose to avoid the pitfalls of rigid proprietary systems - being locked in to a single IT vendor who dictates what hardware to use, what operating system (OS) to arrange, and what software to run. Of course, controlling the supply and distribution chain is critical to all retailers. As margins shrink and delivery time requirements shorten, tracking a product from consumer order to shipment is vital. The right solutions are needed to help enable retailers to maximize efficiencies and meet the extreme load demands they experience in seasonal peaks throughout the year. The success of retailing lies in providing the consumer with the right product - at the right time and at the right place.

- Clear understanding of customer needs.
- Well-run store operations.
- Seamless and efficient Supply Chain.
- Proper matching demand and supply to enable the maintenance of stocks at each location.

Shops fronts, displays and promotions are all much needed parts, but the heart of modern organized retailing is merchandise and supply chain management. In an ideal world, before the world beats a path to its door, a retailer would have a right quantity of the right merchandise in the right place, at the right time. In the world of retailing, this process is termed as merchandise management. Evident here is that there are many variables and decision points involving goods within a retail operation.

A retailer aims for two goals:

- To satisfy the consumer and
- To maximize financials gains at the same time.

So the key factor here to managing the goods, i.e. which implies making the decision of what to sell, hence the two major functions are supply chain management and merchandise management. Both these areas of business optimization encompass many activities and functions.

Cross Docking, *a supply chain innovation* which originated in the early nineties in the grocery business, would not have been possible without close co-ordination between possible merchandising and SCM teams.

Developing competence in merchandise management is a must in retail chains. Infact, globally successful retailers have tried to develop excellence in merchandising as a means to building competitive advantage.

Wal-Mart, the leading retailer in the world, which has successfully come, up with many innovations, and is considered as the storehouse of best practices in the industry, owes most of its triumphs to its policies in merchandising and supply chain management

17.2 THE MERCHANDISE - DECISION MATRIX

The retail manager deals with multiple supply points and sourcing points. He/she also deals with many more items than the other businesses. Best examples of this are

- Leading garments and departmental stores like Shoppers' Stop and Globus, which sell about 100,000 to 1,50,000 different SKU's.

- Food supermarkets like FoodWorld and Nilgiris stocks about 4000 to 5000 different items

- 7-eleven, a leading fod retailer has about 20000 locations worldwide while Wal-Mart owns than 2000 stores.

An organized retailer deals with more than 700 to 800 suppliers whereas large international retailers can have a few thousands of suppliers spread globally. Added to this the number of suppliers and items handles is the complication of shelf-life, which can be as little as one day for fresh foods or just one season for fashion garments. Dealing with such fragmented numbers on both forward and backward linkages would make the need for collaboration between the merchandiser and supply chain manager, highly important. While the retail merchandiser of a large chain has to look at the broader context of all the activities directly or indirectly associated with procuring and reselling merchandise.

So how does Merchandising Work?

Merchandising is more than just an important factors for neighborhood shops like kirana (grocery) or fabric shops. It is, infact their most critical operation. Most of such shops are very small, less than 500 square feet. These shops know that they cannot stock a broad range of merchandise large neighbourhood shop might store 800-700 SKU'S, a fraction of what an organized outlet does. The key to store the right items and to maximize-stocks turns.

In the Indian scenario, most of the retail trade is with mom-and pop stores. These follow more than basic retail practices, which may have changed only marginally since the advent of the concept of a retail outlet. For most of these stores, location is decided by default based on where the owner stays or owns property.

However, in this case because of its small-scale operations, the shop owner cannot afford to make any effort at establishing a supply chain. Most of the shops depend on vendors to knock on their door with supplies or occasional some member of the family goes to the wholesaler to buy the goods. While a small consumer durable store might use the telephone to get in touch with a company or distributor to ask for replenishments.

The new retail chains entering the Indian market in the last few years are trying to build in very different practices. These are inspired by systems followed by leading international chains. Many of these are assisted by international consultancies like AT Kearney, McKinsey, Anderson and KSA Technopak, who help transplant the best international practices to the Indian scenario. This could help Indian companies leapfrog a few stages of development into state-of-the-art practices in merchandise and supply chain management.

Activity 1

Interview a retailer in your locality to identify the decision factors he uses to analyze the merchandise in his outlet.

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17.3 MERCHANDISE MANAGEMENT IN ORGANISED RETAIL CATEGORY MANAGEMENT

Most of the international players follow category management to effectively undertake their merchandising and buying functions. A category is a basic unit of analysis for making merchandising decisions. In general, category is an assortment of items that the customer sees as reasonable substitutes for each other. The fundamental of category management revolve around managing categories as *Strategic Business Units.*

Need for Category Management

The need for category management come from the need to reduce product proliferation, to lift sales and market shares to focus on end-to-end market offering. The whole concept is a customer driven approach, with an aim to answer questions like who is the consumer, why, what, when, how much and. how he/she' is buying. The focus of this study of the customer decision-making process is on identifying the factors that are external and internal to the store, which influence the customer purchase. The idea is to use this information to tailor the offering to consumer needs. The offering is then measures in terms of sales, cost and return per square foot so as to identify the optimum time required to get the highest return and to optimize the value for the customer. The whole process is interplay between customer satisfaction and maximizing returns for the organisation.

An idea of merchandising practices can be had from Macy's, a large US based department store department store chain. Complexities increase when the store became multi-locational, and the chains tried to centralize functions, for maximum efficiency. However, with size, a simple buyer's function was not enough, and new roles developed.

The role of buyer and planner remain key to category management as well. The buyer is responsible for working with vendors, for the selection and pricing of merchandise and for coordinating promotions with advertising department and stores. The buyer's challenge is to compose an assortment that is appealing to the organization's intended customers and to obtain the best possible goods at the lowest possible prices.

The planner is also responsible for forecasting the correct quantities of each item, allocating those items to stores, monitoring sales, and suggesting markdowns. A planner projects sales and inventories based on an analysis of sales history, current market trends and organization's performance objectives.

- In case of more complex organisations, there are individual category managers' for various products, who report to the buyer, while

- In smaller organisations, one may have a buyer handling more than one category the merchandising process can be very inefficient for retailers who don't embrace category management.

Nature of Allocation in Category Management

Another function, traditionally below the buyer, is that a distributor or an allocator, who allocates the arriving shipments of merchandise to individual stores, based on the store's capacity, current sales trends and inventory levels. They are critical link between the merchandising department and the stores. Then there is a product developer, who determines which products can develop internally with the store's private label. They also establish specifications for the design, production and packaging of the goods. In the past, retail sales have been difficult to measure and manage. Most retailers know what their sales will be, (within a level of tolerance). This projection is then used to base payroll, advertising, and many other expenses.

Division of Categories into Sub-categories

The extent to which large global retailers have evolved roles is evident from the classification system evolved by American National Retail Federation. (NRF). NRF has come out with its own structure of a merchandising and planning department, which is followed by major department store chains like Federated Stores Inc, which now owns Macy's. According to this, the first level in a merchandising and planning department is the merchandise group, which is further broken into departments, with departmental heads. A number of buyers report to each departmental heads, with each buyer responsible for a particular classification of merchandise in that division. Each merchandise is the broken into categories where category managers are assigned. The category manager is the last link in the entire merchandise department and he is responsible for all SKU's in his category.

For Example: A design of this function in a category managed retail organization; consider a garment departmental store chain. This could have Menswear as a merchandise group, within which there could be various departments like formal wear, casual wear sports wear and occasional wear. These could be further broken into buying roles like buyer-suits, buyer-cotton shirts, buyer-blended shirts for formal wear, where each product-suit, cotton shirt, and so on- is a classification. Each buyer has various categories to manage. The category manager is responsible for the entire range of activities within that category. Thus a category manager for a plain shirt will be responsible for the procurement, manufacturer, warehousing, distribution, sales and customer service of this category. The sole objective of this one-point control is to develop seamless flow of information on that particular category within the organization so as to remove all obstacles and to measure the performance of this category. The idea is to identify the barriers at each stage and to optimize the returns from that category.

Category management also demands entering into strategic understandings with the vendors. Some internal retailers turn to one favoured vendor to help them to manager the entire category. This vendor is known as the category captain and he/she forms an alliance with the retailer to help gain consumer insight, satisfy consumer needs and improve the performance and profit potential across the entire category. This vendor also provides the retailer with a planogram, which a diagram that illustrates exactly where every SKU in the category should be placed.

17.4 MERCHANDISE PLANNING - THE KEY IN CATEGORY MANAGEMENT

An effective category management starts with the assigning roles, functions and performance targets to various categories. These steps serve two key goals and they are:

1) Positioning of the store in the market and

2) Influencing future decision-making processes.

Formerly, assigning roles to various categories helps the retailers to establish the importance of a particular product to the store.

Four roles can be identified for categories: ***destination, routine, impulse and convenience.***

For example, if the retailer wants his/her store to be ultimate in men's garments, all menswear becomes the destination category on the other hand, if the retailer wants the shopper to merely include menswear on their shopping trip; menswear becomes a routine category. The allocation of space, pricing, promotion and assortment all depends on the role of each category as defined by the retailer. The store management needs to identify and define all the above parameters, before planning for the category.

The identification of the category role becomes much more pertinent in the case of supermarkets, where a decision on whether a category falls into a destination, routine, convenience or impulse mode has a substantial impact on the circulation flow and allocation within the outlet. By organizing the merchandise in planned categories, the retailer can actually make the customer move through the store in predetermined fashion, which can help maximize sales.

Planning consists of two steps

1) At the management level and

2) At the category manager level.

The top management is concerned with forecasting of sales and the estimation of space to be allocated to each category. This is a two-pronged process, which involves forecasting for both the category and store. Targets are set for sales, gross margins, inventory turnover, discounts, mark-ups, stock levels and margins for each store and category. These annual projections and further broken into seasonal projections for these stores and the categories. Thus the top management looks at the big merchandising direction for the company, which is called as the top-down planning.

The category manager takes a more micro approach, wherein he studies the categories' past performance and trends in market place.

Methods of Category Planning and Analysis

The category manager then prepares a range or assortment plan, a procurement plan and a distribution plan.

The Assortment Plan: This deals with the merchandise mix that the category manager feels would sell in the coming year. The key factors considered while making an assortment plan are the range of prices, brands and sizes to be purchased based on the merchandise strategy of the store. The idea is to try and achieve the *sales and profit per square foot* target laid down by the top-level management. The physical characteristics of the store play an important role, as it size determines how much of merchandise it can store. The category manager has also to make adjustments for complementary merchandise. Assortment planning requires inputs from the various internal and external sources. The internal sources are typically past sales data, the budget for the future and the merchandising strategy of the retail organization. The various external sources are consumer and trade publications, trade associations, forecasting service providers, suppliers and consultants.

The Procurement Plan: Once the assortment plan has been prepared, the procurement plan is formulated. The procurement plan involves decisions pertaining to what, how much, when and from whom to buy. Here the product availability aspect of the assortment plan becomes vital. Procurement practices have to be different for different kinds of merchandise. The important distinction to make is staple vs. seasonal merchandise. In the case of staple merchandise, a more mechanical system of inventory management is used. Staple merchandise is replenished based on the amount of units sold during a typical selling period, the lead-time for the arrival of reorders and a safety (or base and back-up) stock.

There are various methods to calculate stick levels. Some of them are as follows:

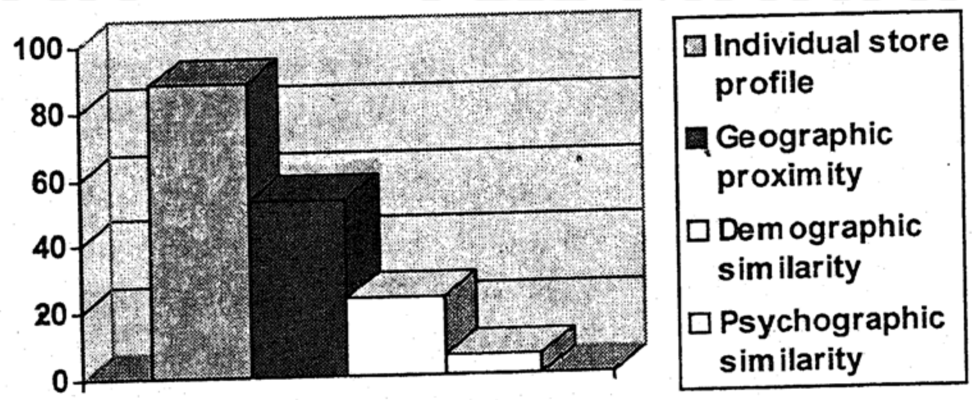
- **Basic Stock Method:** this method asserts that the stock at the beginning of a month should be equal to planned sales plus basic inventory. Thus, it is the planned sales divided by inventory turnaround ratio.

- **Percentage Variation Method:** this method asserts that the stock at the beginning of a month should be a percentage of the average inventory. The percentage is defined as 0.5*(1+(planed sales for month / average monthly sales)

- **Stock-to Sales Ratio:** This method asserts that the stock at the beginning of a month should be equal to the number of times of the expected stock-to-sales ratio.

- **Week of Supply Method:** This method asserts that the amount of inventory required to support planned sales for a week is based on the number of weeks that an inventory will last relative to a desired turnover and planned sales. This reflects the number or days that an inventory will last if sold at the current rate of sale. Most of the merchandise in food and discount stores falls under the staple merchandise category. Here an inventory management report is prepared, which provides information on sales velocity, inventory availability, inventory turnover data, product availability, index back up stock data, forecasts and the point of order. While planning for fashion merchandise, the assortment plan provides a general outline of what types of merchandise should be carried. The procurement plan is used to determine how much money to spend in each month on a particular category of fashion merchandise, given the sales forecast and inventory turnover.

Merchandise Allocation Methods (%)



Source: NRF Survey, 1998

c) **The Distribution Plan:** Allocation of merchandise to the stores is based on the ABC analysis, which measures individual store profiles. The basis of the ABC analysis is to maximize sales per square foot. For a particular category stores are classified as A, B, or C- based on the sales of that category in that store.

Activity 2

Design a plan for two different types of retail outlets in your city and discuss the reasons of your choice?

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17.5 MEASURING PROFITABILITY IN RETAIL OPERATIONS

- Footfalls: The number of people visiting the store.
- Conversions: Percentage of customers visiting the store who make a purchase. Suppose footfalls in a store are 100 but only 30 of them make a purchase than the conversion ratio for the store is 30 %
- Bill size: the average value of purchase made by a customer

Since above parameters define retailers' turnover.

To better understand this concept, take a look at the quote illustration:

- **Illustration No: 1**

Sample Measure of Retailers

Retail Outlet	**Footfalls/day**	**Conversion (%)**	**Average Bill Size**
Shoppers' stop	4000	35-40	1000
Pantaloon	3500	30	850
KBN	2000	20	1500
Planet M	3500	40	250
Ebony	3000	50	700
Meena bazaar	2000	45	1000
Nilgiris	5000	60	300

From the above table, we can draw a clear analysis of how retailers are measuring their operation results.

Let's start by comparing the **Footfalls/day** from one type of retail outlet to another type.

- Supermarkets and discount chains are likely to see a higher rate of footfalls /day in this case, Nilgiris has reported 5000 footfalls/day in comparison with the rest. Like Nilgirirs, FoodWorld (food supermarkets), Subhiksha (discount chain) and the like, also enjoy a lot of prospective customers visiting the store everyday. More than 70-80% of these supermarkets stock foodstuff and related groceries which are daily essentials for people, hence this is one major reason why this type of retail outlets encounter more number of visits/ day in comparison with the other types of retail formats.
- In comparison to the above, there is only a medium rate of footfalls/day observed in departmental stores. This again is bound to vary. Departmental stores like Shoppers' Stop which stocks national brands enjoy a higher rate of 4000 footfalls/day in comparison to Pantaloon and Ebony that is targeted for the upscale customers and has 3500 and 3000 footfalls/day respectively. Upscale consumers thrives on branded names and fascinating ambience, but contributes to a smaller population than the upper middle class and middle class consumers of India. Since Shoppers' Stop also has designer labeled perfumes and accessories to its credit, the apparel section is welcoming a huge crowd otherwise.
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- KBN is again an upmarket retail outlet, which displays only designer label and branded items selling luxury and richness. Apart from the fact that these are total non-essentials and not an everyday use item, it is also for a higher income strata market segment. Hence, even if there are people visiting the store, all of them need not be purchasers. With that note, KBN do observe 2000 footfalls/day.

- Almost in league are the specialty stores like Planet M and Meena Bazaar. In comparison to the other types of retail outlets. Selling only specific product category like in this case, Planet M sells only music CDs, cassettes and other related categories like DVDs etc while Meena Bazaar specialized in textiles only So, such retail formats are seen to observe around 3500 and 2000 footfalls/day respectively.

Now lets make a comparative analysis of **conversion (percentage)** reported in each type of retail formats.

- Starting with supermarkets and discount chains, the table shows Nilgiris enjoying the highest conversion rates of 60 % As mentioned before,, supermarkets and discount chains like FoodWorld, Subhiksha, Vitan and in this case Nilgiris, stocks daily need essential items and hence the number of people walking into the store are mostly purchasers.

- Almost close in league would be the specialty stores since the visitors come there mostly with an intention to purchase. From this case, we can see that the conversion rate of Planet M and Meena Bazaar is almost alike enjoying a 50% and 45% respectively.

- Pantaloon and Shoppers stop are departmental stores stocking national brands hence, a wider audience can be expected to stroll in and observe the stock, yet the ultimate purchasers need to be large. In this case, it is noticed that the conversion rate for stores stocking national brands is slightly higher at the range of 30-45%, yet it is also observed that the stores stocking private labeled brands like for example Westside, is lower in comparison.

- Coming to stores exclusively for upscale consumers like KBN, it is seen to have a low rate of conversion of about 20 % in comparison to the other types of retail formats.

Finally, let us examine yet another important performance measuring method i.e. evaluating the **average bill size** in a particular retail format. The bill size is determined by the cost of purchase of the items sold in each type of retail outlets. So regardless of the conversion rates and footfalls/day, the bill size can be contrasting in figures. Lets make an analysis on it.

- Since the items stocks in supermarkets, discount chains and the like are mostly food items and groceries, which are sold, are nominal price in comparison to branded and designer accessories, the average bill size of supermarkets will significantly small in comparison. As see in the table, the average bill size of Nilgiris and for that matter other supermarkets like FoodWorld is around Rs. 300 only

- Coming to departmental store, which gathers a significant bill size everyday. As seen in this table, Shoppers' Stop is enjoying an average bill size of Rs.1000 as it stocks mostly national brands and has a wider assortment of items too. Yet the departmental stores like Ebony and Pantaloon have average bill size of only 700 and 850 Rs. respectively.

- There is difference between two types of specialty stores here. Planet M deals in music cassettes and CDs which are purchased selectively and hence the average bill size comes to around Rs.250, but Meena Bazaar has to sell in more of large quantity depending on peak seasons and therefore the average bill size comes to around Rs. 1000.

The following table is another striking example of measuring productivity amongst retailers:

- **Illustration No: 2**

Sample Measures of Indian Retailer And Analysis

Retail outlets	No. of employees	Total square feet area (SFT)	Square feet per employees	Sales per square feet (Rs)
Shoppers' Stop	920	230000	250	7800-8700
Globus	150	75000	500	N.A
Benzer	225-275	12000	45-50	4000
KBN	150	16000	100	16250
Croissants	250	8000	30	12500
Vijay sales	125	3000	240	2000
Rhythm house	50	2500	50	24000
Vitan	500	50000	100	6000
Nallis	1000	75000	150	4000
Landmark	50	20400	408	5882
FoodWorld	1500	180000	120	7500
Wearhouse	400	100000	250	3000
Kemps	500	330000	660	7000

The above table has various types of retail formats and measures the productivity of each type depending upon the square feet of each retail outlet and the number of employees each possess. Lets make analysis on the above-mentioned sample:

- Since Shoppers Stop, and similar department stores stocks assorted national branded goods, the number of employees are more and therefore the sales per square feet is also more depending upon the range of accessories to apparels they have. The employees or in this case salesmen are also spread throughout the store to attend their customers for their varied-needs. Globus is comparatively having smaller square feet size hence the number of employees are also lesser, in relation to this the sales per square feet is predicted to be lower than Shoppers' Stop.

- Coming to retail outlets like Benzer and KBN exclusively for the chic and fashionable lot, has undoubtedly a smaller store just to display designer labeled items which are not stocked in bulk and presented elegantly to the customers. Yet being an upmarket store outlets, where individual attention from salesmen is preferred, the square feet per employee is an impressive lot of 100 and even impressive is the sales derived per square feet of around 16,250, like in the case of KBN. Similar analysis can be done for Benzer too.

- Corning to specialty stores like Landmark and Nallis, while landmark is selling more of home furnishing and lighting and Nallis is exclusively selling Indian sarees and related textiles. Yet because of the space occupied by items like home furnishings, Landmark has around 50 employees for its stores and square feet per employee is obviously around 408. In comparison to this, Nallis is able to stack its sarees and the item doesn't occupy much of space yet needs plenty of employees to handle the customer purchase, hence it is seen that such a specialty store has around 1000 employees. Therefore the sale per square feet is also an impressive amount of 40000.

- Supermarkets like FoodWorld, on the contrary is more of a self service and has lesser employees per each store and therefore because of the spreading of the employees around the store, the square feet per employee is only around 150. Supermarkets, discount chains and hypermarkets need a huge store of around or more than 100000 square feet to stock its assorted items of purchase and also in huge quantities. Since most of the products are bought in bulk and on a daily basis, the sale per square feet is mostly around 40000.

From this another important analytical methods called sales per employee ratio can be derived. Take a look at this sample table to understand it better.

Type of Retail Outlets	Sales per employee (Rs.in Lakhs)
Food Chains	5-10
Books & Music	10-15
Garments	25-30
Durables	30

From this we can make the analysis that

- Food chains don't require much of personalized attention and the customers believe in self service and salesmen attend to them only to give direction and give them the price of the item Yet again food chains stock items in bulk and the square feet allotted to such outlets is huge in comparison to the other retail outlets. Almost a similar analysis can be made for Books & Music. The total square feet area for such stores will be lesser but the number of employees in such outlets will be slightly more.. With the type of items to be purchased in these stores, it enjoys more sales per employee, as the statistics says around 10-15 lakhs of sales per employee.

- On the contrary, garments and durables will have a higher rate of sales per employee as the numbers of employees in such store will be high almost at the rate of 200-300 and the sales will differ slightly for durables as the price will be slightly higher for durables in comparison to garments.

(Source: The sample tables in the, illustrations are compiled after detailed discussion with experts)

17.6 MONITORING PERFORMANCE IN RETAIL OPERATIONS

The retail performance can be measured through several ratios. A retailer can compare his performance against industry average or ratios achieved by similar Retailers to judge effectiveness along defined parameters.

- **Illustration No 3**

Lets examine the calculation of Stock Rotation Ratios in order to monitor the performance of retail operations.

Stock Turnaround /Year

FoodWorld	20 times
Subhiksha	19 times
Shoppers' Stop	4-6 times
Pantaloon	4-6 times
Benzer	5-8 times
Meena bazaar	5-8 times
Planet M	7 times
Average Large Departmental stores (USA)	1-2 times

From above table we see that Stock Rotation of:

- Supermarkets like Food World and discount stores like Subhiksha is very high as compared to Departmental stores like Shopper Stop and specialty stores like Planet M. This is because Super markets and discount stores sell Fast Moving Consumer Goods (FMCG) while

- Departmental stores may sell a wide variety of fashion products. The stock rotation of a very large departmental store in USA can be very low since it may stock the entire collection in a category and some products may not move very fast. Hence, a retailer should compare his stock turn over ratio with similar stores. Generally if stock rotation ratio is low the retailer has to have higher margins

Sale Per Square Feet: An Important Monitoring Technique

A **sale per square feet** (SPF) is a measure of how well the retail outlet is using the space allotted. SPF differs among industries - for example, a big box discounter with high inventory turnover (such as Costco) is going to have a much higher SPF than a clothing chain or sports equipment outlet. Another key element is location; SPF is typically much higher for merchants in a destination mall, than for similar stores in a local shopping center - of course, you pay much higher rent at the big mall.

- **Illustration No: 4**

Sales per sq feet

Nature of Retail outlet	Sales/sq feet/ year
Indian kirana shops	Rs. 7000
Indian super markets	Rs 13,500 – 25,000
US food retail	$ 445
Carrefour	$ 1800

The Indian super market is obviously more efficient as seen from above in terms of sales per sq feet than the local Kirana store. Hence it can compete better by offering lower prices. The US food retailers have even higher sales per sq. feet. Carrefour has higher sales per sq. feet than US food retailers since it is a discount hypermarket and attracts very large footfalls and conversions. However, the more relevant ratio to measure would be profit/sq feet since profit is a better measure of performance. Mr. Melwani of Kemp Fort suggests a figure of Rs. 2800 profit per sq feet. However, these ratios would also vary depending on location. Sales and profit per sq feet have to be higher in central business districts to cover the high property/rental costs.

(Source: The sample tables in the illustrations are compiled after detailed discussion with experts)

Relevance of Sale Per Square Feet in Retail Operations

- An upward trend in SPF is almost always a positive sign of a retailer's health, whereas a downward trend in SPF is often a warning sign that business performance is suffering - even if the company's total sales are increasing. A particularly striking example is the Gap stores. Let's compare the company's SPF and adjusted stock price at the end of its last several fiscal years:

Gap Stores Fiscal Year End	Sales per Foot (SPF)	Adjusted Stock Price @ Fiscal Year End	% Change SPF	% Change Stock Price
January 1998	$ 463	$ 17		
January 1999	$ 532	$ 42	+ 15%	+147%
January 2000	$548	$ 44	+ 3%	+ 5%
January 2001	$482	$ 32	- 12%	- 27%
January 2002	$394	$ 14	- 18%	- 56%
January 2003	$349	$ 14	- 11%	n/c

Despite total sales increases in each year, SPF clearly had more impact on the Gap's adjusted stock price - increases in SPF resulted in increases in the stock price, and decreases in SPF had a significant negative effect on investor's perception of the company's performance. To some extent, the decrease in SPF is related to the Gap's aggressive growth since expansion often requires establishing new stores in locations that will generate less foot traffic and a lower SPF than earlier established stores, as well as siphoning sales from existing stores. Regardless of the reasons, a decline in SPF is typically not viewed favorably by the investment community.

Assuming the store size is reasonable, there are many reasons for a poor SPF relative to competitors. Here are 10 primary reasons for a low SPF - these are considerations for retailers of all sizes:

1) Poor product/merchandising mix
2) Insufficient floor inventory (i.e. empty shelves, missing sizes)
3) Un-competitive pricing
4) Poor location and Non-optimal store hours
5) Poor sales & customer service personnel
6) Poor store layout & design
7) Insufficient /poor marketing
8) Fixed Consumer perception

Return on Investment - An Important Monitoring Technique

Apart from all the above ratios used to monitor performance in retail operations, the ideal ratio is considered to be the Return On Investment. Here the retailers can evaluate the investment potential by comparing *the magnitude and timing of expected gains to the investment costs.* For example, the ROI for a new operation program that is expected to cost $500,000 over the next five years and deliver an additional $700,000 in increased profits during the same time? Simple ROI = (Profit - Investment Costs) / Investment Costs = ($700,000 - 500,000) / $500,000 = 40%

As an accounting valuation method, it is popularly calculated as

ROI = Net Income / Book Value of Assets

Simple ROI works well in situations where both the gains and the costs of an investment are easily known. Other things being equal, *the investment with the higher ROI is the better investment.* In complex business settings, however, it is not always easy to match specific returns (such as increased profits) with the specific costs that bring them, and this makes ROI less trustworthy as a guide for decision support. Simple ROI also becomes less trustworthy as a useful metric when the cost figures include allocated or indirect costs, which are probably not caused directly by the action or the investment.

17.7 MAINTAINING UNIFORMITY ACROSS RETAIL OUTLETS

Retailers may have hundreds/thousands of outlets across the country or World. For example Mc Donald has over 35,000 outlets in over 120 countries. Even large retail chains in India like Subhiksha, Food World etc and Restaurant chains like Haldiram and Nirulas have many outlets scattered over the country.

When the retail chain has large number of outlets spread over many cities a major challenge is maintaining uniformity in policies, practices and processes across these outlets to provide a uniform and consistent service experience. Paying constant and explicit attention to the details of the business is how the retailer establishes uniformity in company arrangement.

Systems of Maintaining Uniformity in Large Retail Chain

Three main mechanisms are generally used for measuring and evaluating uniformity in a large retail chains:

- **Field Audits:** Audits are conducted by central or supervisory staff measuring service levels and performance. A good example will be the audit conducted in premises of computer training centers, say Aptech, that checks on a standardized syllabus prescribed to students and common practice of conducting classes. In most cases access to the financial records also is allowed to confirm the uniformity

- **Mystery Shoppers:** A mystery shopper is an anonymous visitor who comes as a normal customer and rates the service experience and later on provides a report to the retailer about it. He/She can be an external consultant hired by company to pose as a customer and submit report on his shopping experience. The purpose of Mystery Shoppers is to help businesses increase sales and improve employee customer service awareness. Continuing with our example in the case of a restaurant, a mystery shopper walks in and orders a meal and the entire dining experience is videotaped. When the tape is sent to the restaurant officials it will also include a voice-over indicating the places where he/she has taken note of points, like poor service, faulty restrooms etc.

- **Management Information System (MIS):** MIS helps in maintaining standardization by measuring in detail the ratio of inputs to outputs through computerized methods. A Point-of-sale system is defined for the chain of Amul outlets, which includes points of sale, inventory management, Data Transfer to central server facility by telephone line using (Remote Access Service) and secure E-cash transaction with smart cards.

17.8 SUMMARY

To sum up our discussion, Controlling is the follow-up function of retail management which helps in comparing the actual performance with the expected performance to spot and evaluate deviations or corrections, for further rectifications. The success of retailing lies in providing the consumer with the right product - at the right time and at the right place. Further we learnt the need of category management come from the need to reduce product abundance and to raise sales. The retailer's challenge is to arrange a range of merchandise that is appealing to the retail firm's prospective customers and to gain the best possible goods at the lowest possible prices.

In order to serve this purpose, the merchandise group is further broken into departments or categories for easy monitoring, with each assigned to the buyer who is responsible for a particular classification of merchandise in that division. The category manager is the last link in the entire merchandise department and he is responsible for all SKU's in his category.

We also covered on the topic of the allocation of space, pricing, promotion and assortment, which depends on the role of each category as defined by the retailer. Apart from this, we had four detailed illustrations discussing the use of ratios like stock turnover /year, sales/profit per year, profit per square feet etc in providing analytical comparison between different types of retail outlets like departmental stores, supermarkets, discount chains and specialty stores.

When the retail chain has large number of outlets spread over many cities a major task is maintaining uniformity in policies, practices and processes across these outlets to provide a uniform and consistent service experience. This can be done by the employees for the three main mechanisms of maintaining uniformity i.e. Field Audits, Mystery Shoppers and Management Information Systems (MIS). Hence it is largely important in paying constant and precise attention to the details in order to establish uniformity in retail operations.

17.9 SELF ASSESSMENT QUESTIONS

1) Discuss the significance of having control over retail operations?

2) Define merchandise management and how is it performed in organised retailing?

3) Discuss the different kinds of merchandise allocation methods chosen by retailers?

4) Describe the various activity ratios utilized by retailers in measuring performance and also point out the choice from one retail format to another?

5) Discuss the relevance of uniformity across retail outlets? Support with examples while explaining the three mechanisms of maintaining uniformity in retail operations?

17.10 FURTHER READINGS

Berman and Evans 1985\ *Retail Management: A Strategic Approach,* Macmillan Publishing Company, New York, NY.

Chetan Bajaj, Rajnish Tuli, Nidhi V. Srivastva (2005) *Retail Management,* Oxford University Press

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