

Name _____

Number _____

RETAILING EXAM

12/06/2013

Duration: 1h 00m

Write your answer within the space provided.

Good Luck!

SHORT ANSWER (4X1,5 = 6 points)

- 1) A floor tile retailer wants to receive a 40 percent markup (on the selling price) for all merchandise. If tiles are sold for 11€ per tile, what is the maximum that the retailer would be willing to pay for a tile? (show your calculations)

Markup percent = $\frac{\text{Retail selling price} - \text{Merchandise cost}}{\text{Retail selling price}}$

$$0.40 = \frac{11 - C}{11} \Rightarrow C = 6,60\text{€}$$

This can also be computed by Merchandise cost = Selling price (1 – Markup).

Grading: only 20% if no calculations are shown

- 2) “The largest the supply chain length, the better for a manufacturer to reach its customer base”. Name two factors that may reverse this statement.

The desired length is determined by many customer-based factors such as

- the size of the customer base (smaller the size => smaller length, unless dispersed)
- geographical dispersion (less dispersed => smaller length)
- behavior patterns like purchase frequency (higher frequency => smaller length)
- average purchase size (bigger baskets => smaller length)
- the particular needs of customers (ex. Convenience, low prices,...)
- ...

Students need to mention the cause=>effect, as examples above.

- 3) Eva, the category manager of “Sport your life”, a sports goods retailer, argues with a supplier that he should invest more in price discounts to recover the sales lost over the past year. The supplier answers that the reason for the bad performance was the introduction of a new range of products from its main competitor in the assortment of the retailer. Moreover, he reminds her that his prices are already 20% lower than his competitor’s. If you were Eva, what possible actions could you take to reverse the sales drop? Name only two.

Several actions are possible for a “category manager”

- Placement: check if it is ok, if not correct it
- Special displays on a temporary basis
- POP communication of product characteristics, price difference,...
- Sales promotion based on more image building tools such as contests/sweepstakes, premiums

Name _____

Number _____

- Assortment: is it the right one?

Note that it might be a problem related to the brand image and positioning in the market, in this case, POS activity alone will not solve the problem.

- 4) What are the trade-offs in a retailer's deciding how much to emphasize private brands rather than manufacturer brands? Name two of them.

Private brands are generally more profitable to retailers, have less price competition, are better controlled by retailers, are not sold by competing retailers, are less expensive for consumers, lead to customer loyalty to retailers (rather than to manufacturers).

However, there are many consumers who are loyal to manufacturer brands and would shop elsewhere if those brands are not stocked or their variety is pruned.

Grading: Note that some students may argue that PL are less profitable, which maybe true for some categories in some retailers, especially in the last years. But in theory this should not happen, so grading will be half only.

BRIEF DISCUSSION (3*2 = 6 points)

- 5) Name two pros and two cons of a company such as Polo Ralph Lauren having a multi-channel strategy, through its own retail facilities and E-commerce Web site as well as selling through traditional retailers.

The pros of Polo Ralph Lauren selling its products through its own retail stores, as well as its E-commerce Web site include increased overall sales through more intensive distribution. Polo Ralph Lauren can also use its Web site to promote its store locations, and serve as a sales outlet in areas that have few of its stores. Lastly, Polo Ralph Lauren can sell excess inventory through its Web site. The Web site also enables shoppers to gather information about products which they can then purchase in the Polo Ralph Lauren store. Also, more loyalty may be achieved as knowledge and information from both channels complement each other and maybe used by the company to be more effective in addressing customers.

The cons of this dual (web+physical store) channels strategy include the need to manage multichannels, possible channel conflict with retailers (that view the Web site as competition) such as which outlets would receive a style or color in short supply), and perhaps different levels of customer support in each channel.

- 6) Contrast the mass market approach used by a supermarket with the concentrated marketing approach used by a fruit-and-vegetable store. Choose only two topics among the retail-mix.

The mass market approach of a supermarket consists of utilizing self-service; advertising specials in newspapers and in freestanding inserts, through point-of-purchase displays, and on television; and on limited selections for selected items. It relies on selling items with mass appeal as well as price specials.

The fruit-and-vegetable store offers specialized merchandise with higher price levels. This store appeals to a specific market niche. Word-of-mouth is very important. This retailer relies on those customers who desire high quality produce, organic produce, fruit baskets, and/or desire fruits and vegetables off season.

- 7) What are the pros and cons of Sephora carrying more than 200 brands of personal care products? Name two of each.

Name _____

Number _____

The pros of Sephora's 200-brand strategy include Sephora's becoming a destination store and related-item selling opportunities. Being a specialist in cosmetics, variety is important.

The cons include possible overload in customer choice, low inventory turnover, less bargaining power with individual suppliers, the need for large stores, difficulties in training store personnel, and a larger overall investment that is required.

8) Should food retailers and discount stores use a free-flow layout? Name two reasons to support your answer.

The answer is NO. The free-flow arrangement

- confuses customers, customers lose focus and will shop slowly
- wastes floor space (not used by displays),
- involves high labor intensity, because it needs more service
- inventory control is more complex
- displays would be more expensive

If students answer yes based on an example such as gourmet food stores, then they should argue that

- there is a more friendly atmosphere
- shoppers do not feel rushed
- people are encouraged to walk through in any direction
- impulse or unplanned purchases are increased

However grading here should be 50% only.

ESSAY (2*3 = 6 points)

9) "Changes in Demographics represent a huge challenge for retailer' stores". Comment this sentence by considering specifically the impact of demographics on the layout, design and assortment of retailer' stores.

Students should relate the demographic effect with a specific impact on store. Some examples are below.

Impact on store layout

- Store size should be smaller – urbanization
- Shopping path should be shorter – older people
- Consider other services inside the same store (ex. Clinics, pharmacies,... inside a supermarket) – older people

Impact on store design

- Signage – improve readability due to older people
- Shelves height – lower height due to older people
- Improve shopper experience – trolleys, screens,... adapted to older people

Impact on store assortment

- Smaller pack sizes due to smaller families (less or no children; elderly people)
- Different categories: ethnic foods
- Lower Out-of-pocket items and/or low price categories – younger people will have less income
- Technology-based products will be a must have

Grading: 25% for each impact (total 75%); 25% for clearness of the answer (impacts are explicitly related with the demographic effect – ex: older people => lower shelves height). Factors related to lifestyles or shopping behaviors are not



Name _____

Number _____

considered, unless directly originated on demographics.

- 10) A competing computer software store has a better location than yours. It is in a modern shopping center with a lot of customer traffic. Your store is in an older neighborhood and requires customers to travel further to reach you. How could you use a merchandising, pricing, and communications strategy to overcome your disadvantageous location?

Merchandising decisions should be made which increase the width and depth of the goods/services assortment. A better selection of goods/services or concentration on special segments (such as software for students, physicians, photo enthusiasts) may attract more customers. Staff should also be comprised of computer enthusiasts who are especially knowledgeable. Prices should be lower than those of the competitor, but still allow a reasonable profit. Communications with customers can focus on the low prices and personal service that may not be available from the competing retailer. Advertising can use slogans such as “We may be out of the way, but it’s worth the drive,” etc.