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| **MODEL ANSWERS – KNOWLEDGE TEST** | |
| Qualification | 332301 Retail buyer |
| Knowledge module | KM02 Concepts and principles for identifying and sourcing products and selecting suppliers |

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| Total possible marks | 333 | Minimum marks required | 266 (80%) |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 1 | KM02KT01 IAC0101 | Describe the impact of importing goods on the South African economy | 30 |

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| Imports have a two-fold impact: firstly, on the country’s economy and, secondly, on consumers. **Impact on the economy** When products are imported, money is exchanged between buyers and suppliers from different countries.  Imports impact on four aspects of the South African economy:   **Trade account** A healthy economy is one where both exports and imports are experiencing growth. This typically indicates economic strength and a sustainable trade surplus or deficit. If exports are growing, but imports have declined significantly, it may indicate that foreign economies are in better shape than the domestic economy. Conversely, if exports fall sharply but imports surge, this may indicate that the domestic economy is faring better than overseas markets.  Imports have an impact on South Africa’s trade account because it may result in trade surpluses and deficits. The trade surplus or deficit is one of the measures against which the economic health of a country is measured.  If the country imports less than it exports, that creates a ***trade surplus***.  A trade surplus contributes to economic growth in a country. When there are more exports than imports, it means that there is a high level of output from a country's factories and industrial facilities, as well as a greater number of people that are being employed in order to keep these factories in operation. When a company is exporting a high level of goods, this also equates to a flow of funds into the country, which stimulate consumer spending and contributes to economic growth.  On the other hand, when a country has a ***trade deficit***, it must borrow from other countries to pay for the extra imports.  The impacts of imports on the South African economy, therefore include:   * When there are too many imports coming into the country in relation to its exports, it can distort South Africa’s balance of trade and devalue its currency. The devaluation of the currency can have a huge impact on the everyday life of citizens because the value of a currency is one of the biggest determinants of a nation’s economic performance and its gross domestic product (GDP). Maintaining the appropriate balance of imports and exports is crucial for any country. * When the country has a trade deficit because it imports more than it exports, the country must borrow money from other countries to pay for the imported goods. This has a negative impact on the currency value of the Rand. The Rand becomes weaker against other currencies, which makes imports more expensive. * Trade deficits have a negative impact on inflation and interest rates. This impacts on businesses as well as consumers. * A weaker domestic currency stimulates exports and makes imports more expensive; conversely, a strong domestic currency hampers exports and makes imports cheaper. * Fewer jobs are created locally because finished products that could have been manufactured locally, in a factory that would employ people, are imported.   Ideally, there should be more exports than imports because:   * Exports boost economic output, as measured by gross domestic product.﻿ They create jobs and increase wages. * Imports make a country dependent on other countries' political and economic power. That is especially true if it imports commodities, such as food, oil, and industrial materials. It is dangerous if a country relies on a foreign power to keep its population fed and its economy running. * ﻿Countries with high import levels must increase their foreign currency reserves. That is how they pay for the imports.﻿ That has an effect on the domestic currency value, inflation, and interest rates. * Domestic companies should be able to compete with foreign companies that import similar goods and services to their businesses. * Exports help domestic companies gain a competitive advantage. Through exporting, they learn to produce a variety of globally demanded goods and services.  **Exchange rate**  A rise in imports will cause a depreciation in the exchange rate.  This is because to buy imports, the country spends more Rands to pay for the imports. This, in turn, causes a depreciation of the Rand. **Inflation rate** A depreciation in the exchange rate tends to increase the inflation rate because:   * Imports become more expensive * Exports increase * With more competitive exports, manufacturers in the country have less incentive to cut costs   If the inflation rate in South Africa becomes higher than that in countries from where South Africa imports, South African goods become less competitive. This, in turn, leads to lower demand for domestically produced goods. Instead, suppliers would look to buy more imports because they will be more competitive. **Interest rates** Higher inflation, caused by higher imports, typically leads to higher interest rates. **Impact on consumers** If the products are produced more cheaply in another country, those products can be made available to consumers at lower prices and this may, in turn, help the consumer balance household budgets.  Although some products may be manufactured more cheaply in some other countries, imports may have negative impacts on the South African economy and that may affect households in other ways such as fewer local jobs, higher interest rates on loans and financing of purchases (for example, a consumer buying furniture on credit at a homeware chain store).  When there are fewer job opportunities, unemployment rates rise and consumers without jobs cannot meet their financial needs and obligations. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 2 | KM02KT01 IAC0102 | Describe (i) applicable legislation and (ii) duties relevant to imports. | 10 |

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| 1. Legislation  |  |  | | --- | --- | | **Customs and Excise Act as amended by the Customs and Excise Amendment Act (13 of 2019)** | The Act intends to provide for the levying of customs and excise duties, the prohibition and control of the importation or manufacture or certain goods. | | **Taxations Administration Act as emended by Taxations Law Amendment Act (34 of 2019)** | The Act aims to, among many other aims:   provide for the effective and efficient collection of tax;   determine the powers and duties of the South African Revenue Service and officials; | | **Import Control Regulations** | The Import Control Regulations specify products for which import is restricted. |  1. Duties   Import duties are imposed to protect local producers.  Import tariffs (duties) and VAT are levied at the first point of entry in the South African Customs Union.  SARS is also responsible for levying these duties, which include: customs duties (including additional ad valorem duties on certain luxury or non-essential items); anti-dumping and countervailing duties; and VAT.  Different rates of duty are applicable to) different goods or commodities, as listed in the HS tariff codes list (PAPD-LPrim-Tariff-2012  Once the goods/product to be imported has been identified, the particulars thereof can be provided to South African Revenue Service who will be able to advise on the relevant tariff heading and applicable duty (including VAT payable). |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 3 | KM02KT01 IAC0103 | Discuss the impact of import costs on the sale of goods | 3 |

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| When the buyer calculates selling prices, the relevant import costs should be included in the **landed cost** of every item.  It is generally recommended by experts that buyers should look for inventory management software that can automate calculations of net landed cost, because manual calculations done on a consistent basis will be painstakingly slow and tedious.  It is important to be as accurate as possible and leveraging technology automations can ensure that. If net landed cost is calculated to be too high, prices could be too high for customers. If the calculation is too low, profits could be affected negatively. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 4 | KM02KT01 IAC0104 | Describe generally accepted import processes and the specific support functions required of an import buyer | 10 |

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| South Africa has a complex import procedure.  An import buyer usually requires the specialist knowledge and services of agencies that provide import support functions such as shipping, insurance and customs clearance. Most major shipping companies provide these services to importers.  **Importer code:**  Importer needs to apply for an importer code from SARS (if the company does not already have one)  **Harmonised System of codes for imported products and customs clearance**  A harmonised System (HS) of codes is used that strictly apply to all imports. There are around 90,000 products on the HS code list. This list is used to (i) control products entering the country and (ii) to determine Customs duties and VAT payable upon entry into the country.  It was already said that the first requirement for importing is that the importer should apply to SARS for an importer code.  SARS then uses a Single Administrative Document (SAD) to facilitate customs clearance fr importers, exporters and cross-border traders.  **Role of Customs clearance agencies**  Customs clearances agencies (a service typically provided by major shipping agents) manage all queries from the customs authority on behalf of the importer. Once goods are cleared by Customs SA, the shipping agent arranges for transit before final delivery.  Through the local services shipping and customs clearance agencies ensure that customs paperwork is relevant and accurate at all times. Once thoroughly checked, shipment information is handed over to the appropriate customs authority to expedite the clearance and get goods delivered quickly and efficiently.  The commodity code (HS code) is a critical piece of information for when goods are submitted to the customs authority.  **Conformity to specifications**  Certain products must be certified for conformity to South African specifications. Examples:   * Electrical products need to receive Electromagnetic Interference (EMI) certification through the SABS or SANAS. * All medicines must be evaluated and certified by the South African Health Products Regulatory Authority (SAHPRA, previously known as the Medicines Control Council). |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 5 | KM02KT02 IAC0201 | Discuss techniques available to identify suppliers of products | 20 |

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| Potential suppliers can be identified by researching several sources of information, including:   * Manufacturer web pages * Trade and commercial shows * Online trade directories * Trade attaches at embassies * Trade journals or magazines  |  |  | | --- | --- | | **Manufacturer’s web pages** | * Searching the Internet for manufacturers of products that are needed (for example, searching for “clothing manufacturers in South Africa”), is one starting point for identifying potential suppliers. * Some suppliers proactively include on their web pages information they know buyers will need, including product lines they manufacture, whether they do custom manufacturing, manufacturing capacity and the type of equipment available. * Other suppliers may only indicate the product lines or specific products. * In both instances, the buyer will gain at least some information to decide whether to ask for further information or to request a quote. | | **Trade and commercial shows** | * Trade and commercial shows may provide a wealth of information, especially on the latest additions to product ranges. * Manufacturers often use trade shows to showcase their new products or capabilities. * Such shows provide the opportunity for direct contact and exploratory discussions between buyer and supplier. * Major trade shows are mostly held in the USA or Europe. * Information on major trade shows is usually published in trade magazines and on the Internet. An Internet search, for example, for “jewellery trade shows 2020” will deliver several listings. | | **Online trade directories** | An online trade directory such as exporters.sg may provide leads to potential suppliers for certain product lines.  The same search may also show up the Clothing Manufacturer’s Association of India, which claims to have 20,000 members: | | **Trade journals and magazines** | A trade magazine, also called a trade journal, is a magazine whose target audience is people who work in a particular trade or industry. Trade publications keep industry members abreast of new developments.  Subscribing to a good trade journal where manufacturers tend to advertise their latest offerings, as a valuable source of information that can be investigated further.  ***Sourcingjournal***.***com*** is an online trade journal on footwear and denims. In an article during May 2020, the journal provided information on footwear manufacturing categorised by country (Brazil, China, Portugal, Italy, India and the USA). | | **Trade associations** | Searching for trade associations may help identify potential suppliers for further investigation.  For example, an Internet search for “clothing manufacturers association” may show up the Clothing Manufacturers Association of India as well as the Clothing manufacturers Association of the USA.  Both these organisations have thousands of members, which the buyer may investigate further for matching potential suppliers to company apparel product needs. | |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 6 | KM02KT02 IAC0202 | Discuss business’ typical requirements when choosing preferred suppliers | 50 |

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| |  |  | | --- | --- | | **Process and design capabilities** | * It is important that suppliers should not only have up-to-date products, but also process technologies. * Different manufacturing processes have strengths an weaknesses, therefore the buyer should be aware of these upfront. * The design capabilities of the manufacturer is important for developing new products. | | **Quality and reliability** | * Quality is an important requirement in the selection of suppliers. * Quality should consistently meet specified requirements. * Reliability relates to whether the supplier can deliver as per agreed lead times. * The buyer should consider whether the supplier is certified against a relevant quality standard (such as ISO, BSI, etc.).   CIPS recommends considering of the following for suppliers who are not accredited or certified against quality standards:   * To what extent does the supplier know about and implement the concept of Total Quality Management (TQM)? * What procedures are in place for the inspection and testing of received materials? * What statistical controls are applied in respect of quality? * Do quality control procedures cover evaluation of the supplier’s sub-contractors? * Can the supplier guarantee that the buying company can safely eliminate incoming inspections? | | **Cost** | The cost of merchandise does not only include the unit price from the supplier, but also payment terms, discounts, carrying cost, and the cost of logistics. | | **Service** | Suppliers must be able to back up their products with services such as product information or warranty where applicable. | | **Production capacity** | The buyer should consider whether the supplier has the capacity to fill orders and meet requirements.  The Chartered Institute of Procurement and Supply defines production capacity as “the limiting capability of a productive unit to produce within a stated time period, normally expressed in terms of output units per unit of time (for example, capacity of 50,000 units per month). | | **Production facilities** | Attention should be given to aspects such as:   * Does the supplier have the full range of machinery to make the required product? * How would any shortage of machinery be overcome? * Are machines modern and well maintained? * Is plant layout satisfactory? * Are good housekeeping standards implemented? * Are health and safety measures satisfactory? | | **Location** | Geographical location is an important requirement because it impacts on transportation, lead times and costs of logistics. | | **Management capability** | Management capability includes aspects such as management’s commitment to continuous process and quality improvement, overall professional ability and experience, its ability to maintain positive relationships with the workforce and a willingness to develop a close working relationship with buyers. | | **Financial health and cost structure** | Financial health is evaluated using different financial ratios that determine whether a supplier can invest in resources, pay its suppliers and workforce and continue to meet its debt and other financial obligations.  Financial health is an important indicator of whether the supplier will be able to be a reliable source of supply.  The Chartered Institute of Procurement and Supply (CIPS) argues that financial appraisal of a potential supplier should reduce the risk of placing business with a supplier whose financial viability might be in doubt. It is recommended that the following checks be done:   * The assessed turnover of the supplier over three years * The profitability and relationship between gross and net profits over three years * The value of the capital assets and return on capital assets and return on capital employed * The scale of borrowings and the ration of debts to assets * Whether the supplier has a financial backer or guarantor * The possibility of a merger or take-over affecting ability to supply * Whether the supplier is “tied” to a small number of major customers so that if one withdraws their business it might not cause the supplier financial difficulties | | **Planning and control system** | Planning and control systems include those systems that schedule and control the flow of work within the organisation.  The level of sophistication (or lack of it) can have a major impact on supply chain performance. | | **Compliance with environmental regulation** | Compliance with environmental regulations – both in the location of the supplier and the retail chain – has become an important requirement.  ISO 14000 provides guidelines on environmental policies. Where applicable, suppliers should be expected to have environmental policies and procedures in place.  If ISO 14000 policies and procedures are not in place, the buyer may consider questions such as:   * Has responsibility for environmental management been allocated to a particular person? * Are materials obtained, as far as possible, from sustainable resources? * What facilities does the supplier have for waste minimisation, disposal and recycling? * What energy savings do the supplier’s product provide? * What measures are in place for the control of dangerous substances and nuisance? | | **Human resources** | The buyer should obtain information such as:   * Number of persons employed in manufacturing and administration * Economical use of human resources * Names, titles, qualifications and experience of managerial staff * Training schemes * Worker representation and recognised trade unions * Days lost through industrial disputes in each of the last (five) years * Staff turnover – managerial and operative staff * Worker attitudes to the organisation and their concern for meeting customer requirements | | **Ethics** | Ethical questions that could be considered include:   * Does the supplier have an ethics policy relating to the purchase and sale of items? * Who is responsible for the enforcement of the ethics policy? * What guidelines and procedures are provided relati9ng to the confidentiality of information relating to the supplier’s customers? * What guidelines are in place regarding receipt of gifts? * What principles apply in respect of conflicts of interest? | | **Longer-term relationship potential** | A long-term relationship is important, especially for critical suppliers.  The buyer/supplier parties should share mutual goals and establish metrics to guide the relationship. | |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 7 | KM02KT02 IAC0203 | Discuss how logistics will impact on a business’ choice of suppliers | 6 |

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| Lead time  Logistical factors that have an impact on the supply chain include:   * Transportation methods * Transportation time, including the time required for customs clearance * Transportation costs * Overall lead times from the time of placing the order until receipt of the purchased merchandise * Processes followed |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 8 | KM02KT02 IAC0204 | Discuss the advantaged and disadvantages of broad and narrow supply bases | 10 |

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| A broad supplier based may, to some extent, have an advantage in helping ensure availability of the type and quantities of merchandise required and possibly a broader product assortment, but it is not without disadvantages.  The disadvantages of a broad supplier base include:   * Having too many suppliers may be inefficient, costly and cause a waste of time in an effort to manage all suppliers. * Pricing will not be optimised because the supplier has only a portion of the retail chain’s business. * Visibility of information on overall spend at a supplier becomes fuzzy. * Increased back office support is required because there are more meetings, more orders to be placed, more invoices to process, more payments to be made and checked, etc. * Suppliers might not be as engaged and as committed as the retail chain want them to be, because they have only a portion of the retail chain’s business.   **Narrow supplier base**  A narrow supplier base has mostly benefits including:   * Financial advantage. Fewer suppliers equal greater leverage with better prices and terms. * Efficiency. Having fewer suppliers means less time, labour and cost is required to manage suppliers. * Decreased risk related to contracts and renewals. * Improved supplier performance. Because they have a bigger share of the purchasing capacity of the retail chain, suppliers are motivated to perform at the highest level. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 9 | KM02KT03 IAC0301 | Discuss the various factors that impact on range and product selection including target market, store size, buying preference, strategy, branding | 30 |

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| **Target market**   * A target market refers to a group of potential customers to whom a company wants to sell its products and services. This group also includes specific customers to whom a company directs its marketing efforts. * The target market typically consists of consumers who exhibit similar characteristics (such as age, location, income or lifestyle) and are considered most likely to buy the retail chain’s product offerings or are likely to be the most profitable segments for the company to service. * Retail chains will normally match the product mix with the needs and expectations of the target market the company has in mind. Products should also be matched to company strategy. * Understanding clearly who the target market is, has become even more crucial in the last decade. Steve Dennis from Forbes reported in 2018 that whilst a very broad product selection was once an area of strength (with chain stores selling a huge range of products all under one roof), “being something to a lot of people but ultimately not much to any of them is now a recipe for failure.” * The key to success in retail today is to offer consumers something different and add value in ways that other online stores simply can’t. If you want to attract prospective customers into your store (online or offline) you simply have to provide a differentiating advantage and a unique retail experience.   **Demographics - Lifestyle**  Lifestyle segmentation is a categorisation of target audiences by how they live. This includes activities like healthy eating, staying active, and participating in sports and other hobbies.  For example:   * Health food stores often target health-conscious consumers such as diabetics or people with food allergies. The majority of products in the product range will, therefore, need to focus on such factors. * Swimwear retailers focus on those who enjoy spending their leisure time in the water. The product range in a swimwear retail chain should therefore focus on a large range of swimwear but also offer related products.   Another example of how ***lifestyle*** may influence product selection, is the trend of “cellular” families, which resulted in a growth in spending on personal appliances. Households with teenage children are likely to have multiple television sets, telephones and computers. Buyers need to understand what types of product features each of these groups within families will prefer.  **Demographics – age groups**  If a retail chain’s target market is mostly based on demographics such as age and lifestyle, it is important to distinguish between different age groups as they behave differently (that is why they are being categorised for several purposes), have different needs and have different preferences in terms of types of products as well as how, where and when they buy. The age grouping during 2019 looked as follows:  Different ***age groups***, and even different genders within the same age group, might have different needs, expectations, preferences and shopping behaviours. Their buying behaviours may also be influenced by different factors. PWC found, for instance during 2019/20 that young millennials were highly influenced by social media content in deciding what to buy. They:   * Used social media to complain about products and services. Such information may influence others about their choice of store and product. * Recommended brands and products to others via social media. * Had been influenced to buy a product or service following endorsement from others. * Browsed social media channels to seek inspiration for purchases.   **Demographics – Income grouping**  The ***income grouping*** of the target market is another factor that will impact on product selection. It may even happen that a retail chain that sells mobile phones will offer different brands and models of mobile phones in different locations, based on the target market within each location. It is no secret that some clothing chains offer different styles of apparel at different branches, based on the income grouping and lifestyle differences of consumers in the different locations. To the same extent, different branches of retail chain stores might need to stock different cosmetic products suited to different skin colours, based on the location of the store and the composition of the local target market.  The most commonly used income grouping that is used when defining target markets, is the LSM  **Demographics – Gender**  Apart from the fact that males and females have different product needs, buyers should take cognisance of changes in consumer needs, such as the fact that more males are using skincare and a larger variety of haircare products. The different attitudes of different genders in terms of brand preferences may also impact on product selection for the buyer. PWC has, for example, found in 2019 that while 44% of females wanted to have a variety of brands to test or try, 48% of men were happy to deal with a trusted brand.  **Geographic – Location**  Geographic segmentation includes categorisation of target market customers according to the physical location. Where the target market is situated, may have an effect on the types of product, sizes of packaging, etc. customers in rural areas may, for example, buy larger packages of items such as maize meal because they travel less often to shop. Customers at a coastal region may buy more leisure attire than in other areas.  **Store size**  The size of a store will impact on the product range that the store can carry.  A store with a larger floor space will probably need to stock a wider and deeper product selection to cater for the needs and expectations of a larger foot count (larger number of customers visiting the store).  Generally, consumers expect a larger store to have a much larger and more exciting selection of products to choose from. **Buying preference** Understanding buying preferences of the target market has a heavy impact on the selection of products offered by a retail chain.  Consumer preferences include their likes, dislikes, values and morals. Preferences may influence buying behaviour, and *vice versa*.  **Company strategy**   * If the company’s strategy includes a drive towards green retailing, the buyer will need to select products that have a lesser impact on the environment, are more environmentally friendly in several aspects, such as: * Materials that the products are made of (sustainable materials such as specifically grown timber rather than deforestation) * Smaller carbon footprint * Environmentally friendly packaging * If the retail chain aims for a high-end experience by customers, then the retailer will have high-end items only, with a larger assortment but smaller quantities per item, to create and maintain the impression of exclusivity.     **Branding**  Loyal customers are a retail chain’s most valuable assets. They are cheaper to retain, usually have the highest lifetime value, and can become brand advocates.  Retailer chains use branding for the purpose of positioning the company. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 10 | KM02KT03 IAC0302 | Describe and discuss the methodologies used in they industry for developing ranges | 30 |

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| To ensure the right selection (assortment) of products is available for the target market, the buyer should consider questions such as:   * *Who is the target customer?* * *Which product?* * *How much of it?* * *What colours?* * *What sizes?*   **Step 1: Define the category based on the needs of the target market**  The objective of step 1 is to determine the products that make up a category and its segments.  For this step, tools used include a market structure analysis and preference segmentation.  The ideal with defining a category and its segments, is that it should be based on the retail chain’s strategy which states which consumers are the most important to the retailer, that is, the target market.  The needs of the target market should form the basis of the category analysis and product identification.  Karolefski and Heller state that the buyer should understand customer buying patterns and how products interact with each other.  Shopper behaviour depends on the reason for shopping. A mother may, for example, at one shopping occasion need fruit-flavoured yoghurts in squeeze tubes for her children’s school lunch boxes, or she may need a large container of plain yoghurt for an elderly parent who likes to mix in her own fruits. When such behaviour patterns are monitored over time, patterns will emerge that can provide information to be used for effective product selection.  **Step 2: Assign a role to the category to support the retail chain’s strategy**  The objective of step 2 is to assign a category role (purpose).  Category roles can be used to:   * increase shopper traffic * support specific shopping needs * feature special occasions * make target categories more shopper friendly * help chain stores execute specific strategies targeted to meet consumer’s needs * Help determine the strategic layout for the store. The chain store manager can manage traffic flow by placing categories strategically within identified destination roles throughout the store and surrounding them with related routine and impulse categories * Set the stage for assortment, pricing and merchandise strategies.   There are four key consumer-centred category roles:   |  |  |  | | --- | --- | --- | | **Destination role** | With this category, the store is profiled against the target consumers and differentiated from competition. It aims to offer superior value to consumers and define the chain store as a store of choice. | | | **Routine role** | | This category aims to provide consistent and competitive value for the everyday needs of consumers.  Products in this category tend to be items like pet products, paper towels, toilet tissue, etc.  A small percentage of consumers purchase these but they buy a large number of them. | | **Seasonal role** | | This category refers to products which are purchased occasionally and not on a regular basis. | | **Convenience role** | | Purchased infrequently, but important when a customer buys them. In a grocery store these are hardware items, shoe polish, etc. |   **Step 3: Assess the category to find opportunities for improvement**  The objective of step 3 is to analyse the category as well as its sub-categories, brands and items based on consumer, market, retailer and supplier.  The purpose is to determine the potential for growth.  It is true that retailers can effectively assess categories on their own, but they typically rely on the deep insights of their suppliers on who the consumers are and how they buy.  Four perspectives should be assessed:   * **The consumer perspective**. This perspective provides information into who shops, how, where and why. * **The market perspective**. This perspective enables the retailer to benchmark itself against the total market and against competitors in the market. * **The retailer perspective**. This perspective provides detailed information on category pricing and profitability, item movement and shelf placement. * **The supplier perspective**. This perspective allows retailers to assess their suppliers’ past logistical, marketing and promotional performance as well as future support of their brands to the retailer and the public.   **Set performance targets to measure progress with a category scorecard**  The objective of step 4 is to set targets for the retail chain and its key suppliers in support of the category business plan.  Scorecards are created to keep track of progress against the plans. Their purpose is to highlight strengths and weaknesses of the category.  Scorecard measures for the category may include entries such as sales, profit, return on investment, market share, stock turn, market penetration, gross margin return on investment (GMROI), purchase size, purchase frequency, service level, etc. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 11 | KM02KT03 IAC0303 | Discuss how trends, fashions, fads and world events impact on product selection | 12 |

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| |  |  | | --- | --- | | **Fads** | * A fad is any form of behaviour is intensely followed by a population or a product for which there is a sudden, novel interest, for a short period of time. * Fads come fast and fade away – they are novelties for which interest rises very quickly and falls quickly. * Using fads can create attention and momentarily serve as a gateway for new customer audiences, but they fade away quickly and, therefore, should be used with utter caution to prevent overstocking and dead stock of an item that will no longer sell. | | **Trends** | Trends gets stronger over time. Most trends last for several years.  Trends have identifiable and explainable rises driven by needs of target market segments. They help solve problems and represent new ways of life. | | **Fashion** | Fashion is defined as a popular or the latest style of clothing, hair or accessory.  Fashion change relates to changes on colour, styling, fabrication, silhouette, and performance to reflect fashion trends.  Clothing products that exist for a long time without fashion change are called basic products, while clothing products that change rapidly in styling are called fashion-sensitive products.  The time range of a fashion trend is getting shorter than in the past due to easy access to trend information through advanced media and easy access to fashionable clothing products in stores.  It is believed that consumers will spend a higher share of their budget in retailers that renovate the fashion assortment at a faster pace.  Buyers should be aware and quick to respond to fashion trends worldwide, in order to select the right product assortment. Da Vinci Retail claims that “twenty years ago, customers discovered fashion differently. While some might have followed the trends in magazines and on TV, many may not have found new styles until they arrived in stores. Unfortunately, stores no longer dictate the fashions. Instead, retailers race madly to catch up.  Consumers find new styles on Instagram and other social media platforms you and I haven’t heard of yet. They read blogs and follow celebrities. And when they see something they want, they want it now.  Fashion plays a role in turnover, because fashion-conscious customers tend to continuously buy the latest fashion. The buyer should, however, carefully balance availability of the latest fashion items with buying quantities and varieties without overstockimg. | | **World events** | World events may take many forms, for example:   * World sports events * World socio-economic events such as Covid-19 pandemic in 2020. * Political events that rock the global economy   World events may temporarily change shopping patterns and need for specific products.  The buyer needs to carefully analyse potential needs of customers and forecast sales very cautiously to be able to maximise any opportunities without experiencing overstock and dead stock situations.  For sports events, there might be a need for team support apparel and memorabilia, especially if a team to seem to be on a winning spree. However, should the team start losing, consumer interest in these items will quickly fade.  On a socio-economic level, the 2020-21 Covid-19 pandemic is an example of how consumer buying patterns may change, not only because of an immediate crisis such as lockdown with closing of retail stores, but also in altering shopping patterns and preferences over the longer term. | |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 12 | KM02KT04 IAC0401 | Describe generally accepted methods for conducting research on product availability | 15 |

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| Potential suppliers can be identified by researching several sources of information, including:   * **Manufacturer web pages.** Working directly with manufacturers ensures inventory is acquired at the lowest possible prices by cutting out the middlemen (wholesalers and distributors). Without any middlemen to deal with, buyers can source high quality products that are in demand at the best prices. * **Trade and commercial shows**. There are trade shows for a variety of different industries, including textiles, apparel, home furnishing, electronics, beauty, health and nutrition, outdoor sports, and so on.   + The buyer can locate manufacturers by joining retail industry associations and trade organisations or by connecting with domestic and overseas manufacturers through attending trade show events.   + Trade shows are not only good opportunities for networking with potential suppliers, but they are also a place to spot upcoming trends. For example, the China Sourcing fair is organised by product type and attracts thousands of exhibitors and participants every year.   + Trade shows further provide buyers with the opportunity to compare prices and quality of products showcased and demonstrated by different suppliers at a one convenient venue.   + Trade shows are often advertised in trade magazines or through trade organisations. about upcoming trade shows. * **Trade attaches at embassies**. They can usually assist with finding suppliers because their mission is to promote trade between countries. * **Trade journals or magazines**. Trade magazines can be an inexpensive way to scour for companies that might offer the products that the buyer is looking for.   + Many manufacturers use trade magazines to make potential buyers aware of new technology or upgraded capacity. They can help with shortlisting a few suppliers to start communicating with and find out whether they will be participating at any upcoming trade shows that the buyer can attend. Trade magazines are usually a source of information. * **Trade organisations**. These organisations usually aim to match up buyers and sellers with their extensive network and access to manufacturers from other countries.   **Online trade directories**. Several online trade directories are available. One such directory is Global Sources |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 13 | KM02KT04 IAC0402 | Discuss generally accepted methods for analysing research data on product availability | 25 |

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| Buyers typically use the following methodologies for analysing data on product availability:  **Availability of substitutes**  A substitute is a product that serves the same purpose as another product in the market.  Substitutes provide choices and alternatives for consumers while creating competition in the marketplace.  The buyer should research substitutes before deciding to buy a particular produce, because:   * The greater the number of substitutes, the more rivalry there is between retailers. * Products with many substitutes are difficult to price. Prices of products with many substitutes are highly volatile. * Where there are fewer substitute products, there is a probability of earning higher profits. * In a bid to provide the substitutes at the lowest prices, suppliers may compromise on quality in an effort to reduce manufacturing costs. * If a product is priced fairly, for example in the case of writing pens, there is a higher risk of consumers switching from using one pen to the other unless they are loyal to the particular brand they have been using.     **Characteristics relative to competitors**   * The buyer should analyse the characteristics of the products he or she intends to buy, relative to products offered by competitors, and/or relative to the characteristics of competing substitutes. * Substitutes may have different characteristics and therefore meet different needs of consumers. If characteristics vary between substitutes, the likelihood of meeting the needs of a specific group of consumers is higher. Thus, a new product may provide good opportunities. * Porters’ Five forces model of analysing competition includes an analysis of threats based on the characteristics of substitute products. The model states that if the functions, attributes (characteristics) or performance of the substitute products are equal to or superior, the threat of substitutes is high, depending on consumer preferences and/or tastes. * Porter’s model has practical applicability for buyers. As the buyer analyses the impact of substitutes, he or she should consider the types of substitutes that might exist or might emerge to compete with the intended products. * Consideration of substitutes should be part of an ongoing process of environmental scanning to help forecast and identify potential risks that must be addressed to ensure the retail chain’s categories and product ranges remain viable and competitive.     **Pricing research**  Pricing research is a research method which uses research techniques geared towards (i) measuring the impact of change in prices to the demand of any product and (ii) to determine the optimal price for new products. Pricing research helps retail chains find optimal price a customer is willing to pay thus helping them maximize revenue and market share. **Potential income** Potential income is a critical aspect to consider when analysing product availability. The ultimate objective of product assortment decisions is to identify and implement products that will contribute to the bottom line of the retail chain.  Potential income (gross profit in Rands and in profit margin) can only be estimated once the buyer has identified product that offer good selling opportunities and has calculated landed cost as well as made sales forecasts.  **Market environment**  The market environment that needs to be analysed includes the following:   * The political and regulatory environment * The economic environment * The competitive environment * The technological environment * The social and cultural environment * Consumer behaviour |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 14 | KM02KT04 IAC0403 | Describe methods for identifying product sources | 15 |

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| Potential suppliers can be identified by researching several sources of information, including:   * **Manufacturer web pages.** Working directly with manufacturers ensures inventory is acquired at the lowest possible prices by cutting out the middlemen (wholesalers and distributors). Without any middlemen to deal with, buyers can source high quality products that are in demand at the best prices. * **Trade and commercial shows**. There are trade shows for a variety of different industries, including textiles, apparel, home furnishing, electronics, beauty, health and nutrition, outdoor sports, and so on.   + The buyer can locate manufacturers by joining retail industry associations and trade organisations or by connecting with domestic and overseas manufacturers through attending trade show events.   + Trade shows are not only good opportunities for networking with potential suppliers, but they are also a place to spot upcoming trends. For example, the China Sourcing fair is organised by product type and attracts thousands of exhibitors and participants every year.   + Trade shows further provide buyers with the opportunity to compare prices and quality of products showcased and demonstrated by different suppliers at a one convenient venue.   + Trade shows are often advertised in trade magazines or through trade organisations. about upcoming trade shows. * **Trade attaches at embassies**. They can usually assist with finding suppliers because their mission is to promote trade between countries. * **Trade journals or magazines**. Trade magazines can be an inexpensive way to scour for companies that might offer the products that the buyer is looking for.   + Many manufacturers use trade magazines to make potential buyers aware of new technology or upgraded capacity. They can help with shortlisting a few suppliers to start communicating with and find out whether they will be participating at any upcoming trade shows that the buyer can attend. Trade magazines are usually a source of information. * **Trade organisations**. These organisations usually aim to match up buyers and sellers with their extensive network and access to manufacturers from other countries.   **Online trade directories**. Several online trade directories are available. One such directory is Global Sources |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 15 | KM02KT04 IAC0404 | Describe methodologies used in the industry for analysing competitor ranges. | 15 |

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| Two are mainly two methods that can be used for product range analysis:   * The Boston matrix * SWOT analysis   **Boston matrix**  The Boston matrix is a model which helps businesses analyse their **portfolio of brands** or products within a product range.  The matrix is used to categorise the products into one of four different areas, based on:   * **Market share: D**oes the product have a low or high market share? * **Market growth: A**re the numbers of potential customers in the market growing or not?   The four categories can be described as follows:   * + **Stars** are **high growth products** competing in markets where they are strong compared with the competition. These products often need heavy investment to sustain growth.   + **Cash cows** are **low-growth products** *with a high market share*. These are mature, successful products with relatively little need for investment. They need to be managed for continued profit - so that they continue to generate the strong cash flows.   + **Question marks** are products with *low market share operating in high growth markets*. This suggests that they have potential but may need substantial investment to grow market share.   + **Dogs are** products that have a *low market share in unattractive, low-growth markets*. Dogs may generate enough cash to break-even, but they are rarely, if ever, worth investing in.   Ideally a business would prefer products in all categories except dogs to give it a balanced portfolio of products.  **SWOT analysis**  A SWOT analysis involves identifying the key internal factors (strengths and weaknesses) and external factors (opportunities and threats presented by the external environment - other retail companies, changes in consumer needs, changes in consumer behaviour, etc.) that are favourable or unfavourable to achieving the company’s objectives.  The results of a SWOT analysis are presented in the form of a matrix. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 16 | KM02KT04 IAC0405 | Describe methods used in the industry for completing a SWOT analysis | 15 |

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| **Sources of information**  Strengths and weaknesses of competitors can be identified through:   * **Primary data** collected through new information collected specifically for a particular purpose. * **Secondary data** is public information that has been collected by others. It is typically free or inexpensive to obtain. * **Personal experience and observation.**   Consider the following questions:  **Strengths**   * What product categories do competitors offer? * What are they known for? * What attracts customers to them? * How have they recently changed their product range to better meet the needs and expectations of their target market? * Why do customers ultimately end up purchasing from the competitors?   **Weaknesses**   * What do competitors’ customers regularly complain about? * What problems have you experienced when you “shopped” with them? * What products or services should they offer but don’t?   **Opportunities**   * Are the competitors doing anything that presents an opportunity for the retail chain you represent? * What do they not offer that can present an opportunity for the retail chain you represent? * Have they stopped carrying any products that might create an opportunity for the retail chain you represent?   **Threats**   * Is your competition doing anything that presents a threat to your business? * Have they lowered their prices recently? * Are they offering new products or services that might pose a threat to the retail chain you represent? |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 17 | KM02KT05 IAC0501 | Describe how the target markets are categorised in the wholesale and retail industry | 10 |

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| |  |  | | --- | --- | | **Demographic** | Demographic segmentation (or categorisation) slices the market based on demographical characteristics such as:   * Age * Gender * Income * Family size * educational qualification * socio-economic status | | **Geographic** | The population is divided based on geographics such as:   * Country * Province * City * Suburb * Region, etc. | | **Psychographic** | Psychographic market segmentation is based on factors such as:   * Personality * Personal characteristics * Lifestyle * Social status | | **Behavioural** | Behavioural market segmentation is based on consumer behaviour or usage patterns. | |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 18 | KM02KT05 IAC0502 | Describe the LSM method for categorising target markets in South Africa and how it can be used when setting ranges for a business | 20 |

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| LSM is the abbreviation for *Life Standards Measure*, which was developed by the South African Audience Research Foundation (SAARF) and which has become one of the most widely used tools for market research and target market definition.  LSM creates an index that groups together those people with similar behaviour and is, in essence, a wealth measure based on the standard of living rather than income.  Information available from SAARF divides consumers according to life stages and also according to lifestyles.  **Life stages**  Adults are placed into life stages based on:   * Age * Living with parents * Married/living together with a significant other * Dependent children in the household   The identified life stages were:   * **At home singles.** Up to 34 years old; live with parents; not marries or living together; no depended children * **Young independent adults.** Up to 34 years old; not living with parents; not married or living together; no dependent children * **Mature singles.** Age 35 and above; not married or living together; no dependent children * **Young couples.** Age up to 49; married or living together; no dependent children * **Single families.** Not married or living together; dependent children * **Young families.** Married or living together; at least 1 dependent child under 13 years * **Mature families.** Married or living together; no dependent children under 13 years; at least 1 dependent child over 13 * **Mature couples.** Age 50 and above; married or living together; no dependent children   The SAARF points out that the LSM is not to be used as a psychographic or attitudinal measure and that LSMs are not alternative labels for income levels. LMSs can indicate, for example, that those in LSM 10 have more commodities than others, but it does not tell their income or whether they are predisposed towards spending money. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 19 | KM02KT05 IAC0503 | Discuss how factors such as ethical sourcing, price and brand influence customer shopping habits | 10 |

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| **Ethical sourcing**  Ethical sourcing is the process of ensuring the products being sourced are obtained in a responsible and sustainable way, that the workers involved in making them are safe and treated fairly and that environmental and social impacts are taken into consideration during the sourcing process.  The worldwide focus on environmental protection and respecting human rights is having an effect on buying habits.  Consumers may, for example, resist buying leather shoes manufactured in a specific country should it become known that the particular factory is using processes that harm the environment or that human rights are grossly disrespected.  **Green products and sourcing**  The world-wide focus protecting the environment has had an effect on consumer buying habits in the sense that a growing number of consumers are developing their buying habits around “green” retailing and products.  **Price**  Price has a relative effect: Some consumers are sensitive to price, whereas others do not consider the price when making a purchase decision.  Consumers are very rational when it comes to judging what benefits they wish to get from buying products or services they pay for.  Price is an important factor in the purchasing decision, especially for products that are frequently purchased, and in turn, influences the choices of which store, product, and brand to patronise.  **Brand**  Brand image is important because it influences consumers’ decisions to purchase and their buying behaviour. Consumers typically do not have the time to obtain full knowledge about a product while making buying decisions. Therefore, they often rely on the brand image when making buying decisions.  Many consumers prefer to buy branded products because they belief that brands reflect quality. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 20 | KM02KT05 IAC0504 | Describe the buying habits of shoppers falling into the LSM1, LSM5 and LSM10 bands | 6 |

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| * Consumers who fall in LSM1 to 2 have very little household possessions and are driven to satisfy only basic needs as they have very little disposable income. They are mostly isolated from media, which makes marketing difficult, which further limits the information they receive and the options of choice they have. * Consumers who fall in LSM 3-6 have very basic household appliances and have more money to spend on things they want as opposed to need. They are, however, often still in lower income brackets. * Consumers who fall in LSM 7 to 10 have more household possessions and their needs in this product category are mostly satisfied. They are driven to satisfy their wants in terms of the lifestyle they prefer. |