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| **MODEL ANSWERS – KNOWLEDGE TEST** | |
| Qualification | 332301 Retail buyer |
| Knowledge module | KM03 Concepts and principles of buying merchandise |

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| Total possible marks | 220 | Minimum marks required | 176 (80%) |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 1 | KM03KT01 IAC0301 | Discuss the negotiation process by referring to the phases and briefly describing each. | 6 |

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| Negotiation is a three-phase process:   * Pre-negotiation preparation * Meeting phase * Contracting phase   During the **pre-negotiation** process, preparation includes analysing of information, setting objectives and developing strategies.  The **meeting phase** involves an introductory stage, discussion, further collection and analysis of information, with the reaching of agreement between the parties.  The process is, in essence, often more complex and the meeting phase may involve multiple meetings. In such cases, preparation requires phased objectives. It may, for example, be that the first meeting is purely intended as an exploratory exercise where both parties should clarify issues of the negotiation and collect further information.  ***Negotiating price, costs and payment terms***  Negotiations need to include the actual price of the merchandise but also discounts, related costs, and payment terms. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 2 | KM03KT01 IAC0302 | Discuss different negotiation strategies used in the industry | 25 |

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| The most commonly used negotiation strategies in buying are:   * Competitive * Distributive * Integrative   ***Competitive negotiation***  Competitive negotiation is a tendering method in which a request for proposals (RFP) is sent only to qualified suppliers.  The RFP details the scope, specifications, and terms and conditions of the proposed contract and the criteria for evaluating the bids. Then separate negotiations are carried out with each bidder whose bid falls within the pre-set competitive range.  The process concludes with the award of contract to the bidder who offers most advantageous price, quality, and service combination.  It is, therefore, a procurement procedure in which the contract is normally awarded to the supplier who submits the lowest financial prices or obtains the highest number of tender evaluation points.  Competitive strategy is used where:   * It is not feasible or necessary to formulate detailed specifications for the work or to identify the characteristics of merchandise to obtain the most satisfactory solution to procurement needs * There are a number of options for satisfying procurement needs.   ***Distributive negotiation:***  Distributive negotiation is a competitive strategy in which one party gains only if the other party loses something.  The aim of this approach is not to achieve a win-win situation but rather for one side to win as much they can and is, in essence, a win-lose situation where both parties in the negotiation will try to get the maximum benefit.  Distributive negotiations may either be “hard” or “soft.  Hard distributive negotiation takes place when each party holds out for what it wants without any compromise. Often, such an attitude leads to an impasse.  In soft distributive negotiation, both parties follow the give-and-take the policy, make concessions, compromise on some issues and reach an agreement that is realistic and acceptable.  Usually, one party asks for much higher benefits than it is willing to accept and the other party offers much less than it is willing to give. Then, by negotiation and compromise, they meet somewhere in the middle and both parties are satisfied.  The basics of distributive negotiation:   * The basic guideline is to play your cards close to your chest, giving little or no information to the other side. The less the other negotiator knows about your interests in terms of the negotiation, the better your position. * Try to obtain as much information from the other side as you can. Any further information uncovered is potential leverage to negotiate a better deal. * Let the supplier know you have options. * Make the first offer. Whatever the first offer is, generally acts as a negotiation anchor. The anchor becomes the point on which the rest of the negotiation will likely revolve. * Be realistic. Being too greedy or making too low offers will likely result in no agreement.   ***Integrative negotiation***  **Integrative negotiation** is a collaborative model in which the parties seek to expand the range of possible outcomes and thereby maximise their individual benefits.  There are many advantages to be gained by both parties, when they take a cooperative approach to the negotiation.  The collaborative negotiation process is often described as the “win-win” scenario.  Generally, integrative negotiations are future-focused, with long-term relationships in mind.  **The basics of integrative negotiation**   * Integrative negotiations usually involve discussion of many issues. Each side wants to get something of value while trading something of lesser value. This is in contrast to distributive negotiations, which generally revolve around the price or a single issue. * To understand each other’s situation, both sides should share as much information as possible. This helps each side understand the other’s interests or objectives. * Co-operation of both parties is essential. * Integrative negotiation is all about bridge building with a long-term relationship in mind. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 3 | KM03KT01 IAC0303 | Discuss conflict that may arise in negotiations and methods to manage this conflict | 15 |

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| The most common causes of conflict include:   * Intercultural differences * Assumptions * Use of power and hidden agendas  |  |  |  | | --- | --- | --- | | **Potential cause of conflict** | **Discussion** | **How to prevent it** | | Intercultural conflict | When negotiating with someone from a different culture, negotiators often try to learn cultural practices that will help to avoid causing offense.  However, there is a risk to focusing on cultural differences: too much attention may be given to presumed cultural differences and this may end up over-simplifying or stereotyping the other party.  When one or both sides fall into this trap, misunderstandings and conflict can arise. | When preparing for an inter­national negotiation, background research on the other party’s culture is important, but it is even more important to get to know the person as an individual.  Obtain information such as the person’s profession, work experience, education, areas of expertise, personality, and negotiating experience.  Take care not to stereotype. | | Assumptions | Assumptions are most of the time incorrect. When negotiations are based on assumptions, rather than confirmed facts, conflict may arise. | Always test assumptions that were made while preparing for the negotiation. | | Use of power and hidden agendas | In difficult negotiations, some negotiators make moves to question the legitimacy of the other party and assert their own power. This can lead to conflict, angry outbursts and hurt feelings.  A negotiator may, for example, challenge the other party’s competence or expertise, or demean the ideas of the other party in a way that it makes it difficult to respond.  By challenging, demeaning, and criticizing, the negotiator who applies this technique to exert power (whether consciously or not) may be attempting to provoke the other party into an emotional response that will shift the balance of power in their favour. | Avoid being provoked into an emotional response. Stay calm and factual. | |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 4 | KM03KT01 IAC0304 | Discuss the different relationships business has with suppliers and their impact on the negotiation process | 20 |

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| The three key types of relationships between retailers and suppliers are:   * Transactional * Collaborative * Alliance   ***Transactional relationship***  Transactional relationships are the most common and the most basic type of relationship between buyer and supplier. This relationship is referred to as an arm’s-length relationship that could be a once-off transaction between buyer and supplier.  Transactional relationships are often present where the products are not critical and where out-of-stock situations or late deliveries do not have a major impact on the retailer. It is therefore, often used for routine purchases and leverage purchases.  There is rarely serious negotiation in this type of relationship and it usually takes very little time and effort by either party to go through with an agreement.  One of the advantages to having a transactional relationship is that a lower skill level is required. Price negotiation is not really a big issue because it is usually negotiated to be somewhere around the market price standard.  In a transactional relationship, suppliers tend to have more leverage than the buyers of the product.  ***Collaborative relationship***  A collaborative relationship is one that is of mutual benefit to both parties. Buyer and supplier work together for increased savings for the buyer yet a profitable sale for the supplier.  Requirements for a collaborative relationship are dependent on the product and its importance to the buyer, but open negotiation with an understanding of the needs and interests of both parties is required.  Merchandise bought through a collaborative relationship are usually strategic to the retailer.  The benefits of a collaborative relationships usually include:   * Lower overall costs * Higher quality products * Less time to market due to open communication and improved technology and innovation.   Supply disruptions are less likely as the relationship is similar to friendship and suppliers and buyers look out for one another rather than opportunities to take advantage of one another.  Collaborative relationships take time and effort to establish. The buyer must nurture the relationship and build trust.  ***Alliance relationship***  An alliance or partner relationship formed for a systematic approach to the mutual benefit and growth of both parties.  Improved quality and technology from suppliers can be obtained from the openness and trust that is built from alliance partners.  An open and trustful relationship usually results in the development of new products with a lower total cost.  Trust and openness are critical during the negotiation process and there should be a desire to work together as partners to grow together. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 5 | KM03KT01 IAC0305 | Explain how a buyer should prepare for a negotiation with a supplier | 20 |

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| ***Pre-negotiation preparation***  The key aspects to be considered during preparation for negotiation are:   |  |  | | --- | --- | | **What do we want from the negotiation?** | The following are examples:   * A lower price * An improved relationship * Bigger discounts * Faster delivery * Improved quality | | **How valuable is each of the “wants” to the company?** | Wants need to be prioritised.  Examples:   * Prompt delivery = High priority * Lower price = Medium priority * Improved quality = Low priority | | **What are the entry and exit points?** | The entry point is the opening bid.  The exit point is the position of “walk away” from the negotiation. |   ***Collecting information and assessing the supplier with a SWOT analysis***  The information required for preparing for negotiation will be unique to every situation.  The following questions are typical examples.   * The current agreement (if one is in place) * Specification issues * Delivery issues * Financial issues * Contractual issues * Strengths and weakness of own team/company and of the supplier   ***Setting objectives and determining the ideal position and fall-back position***  Key areas in negotiation include the following:   * **Total value**. Both parties’ negotiators will aim to maximise the value of the deal for their organisations. * **Risk**. Each party will aim to minimise the risk to their organisations. * **Cost**. The buyer wants to get the lowest price and/or cost, while the supplier will aim for the highest price. Cost includes negotiating aspects such as cash discounts, anticipation, trade discounts, quantity discounts, seasonal discounts, advertising allowances, postdating, transportation costs, insurance, etc. * **Cash**. Negotiations need to include how payment will be made. * **Terms and conditions**. These are important aspects that are often neglected. These include all the rights and obligations of both parties, packing considerations and terms that define what can or should be done when situations change or one of the parties do not perform according to the contract.   ***Three positions***   * **BATNA** is the buyer’s best alternative to a negotiated agreement also called the fall-back position. If the supplier has more power than the buying team, it is unlikely that the buying team will gain all they hope for during the negotiation. Therefore, concessions will need to be made to reach a fall-back position, or BATNA. BATNA is used to determine the walk-away position, or where the buying team will say “No”. the buying team should work out in advance what the limit of the negotiation range will be. * **Least acceptable agreement (LAA**). This relates to considering, “What is fair?”; “What is desirable or attractive?”; and “When will it be ‘no deal’?” * **Most favoured position (MFP).** This relates to the ideal outcome.   ***Prepare an agenda***  Once all the preparation aspects have been considered and clarified, an agenda should be prepared.  ***The stages in the meeting phase***  The meeting phase consists of three stages, namely those indicated in Figures 1 and 2:   * Introductory stage * Discussion stage * Agreement stage |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 6 | KM03KT01 IAC0306 | Describe the various terms a buyer could negotiate including:   * payment terms * settlement discounts * advertising allowances * growth incentives * penalties * rebates * swell allowances   For each of the above, explain the impact they will have on the negotiation process. | 30 |

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| ***Payment terms and Settlement discounts***   * Cash payment:   + Cash discounts are reductions in the selling price for prompt payment of invoices.   + The supplier indicates on the invoice that a given percentage may be deducted if payment is received by a specified date. A cash discount benefits the byer and the supplier.   + The supplier gains quicker payment while the buying company gets to pay less for the merchandise. * Anticipation.   + Anticipation is a special form of cash discount.   + Anticipation works in the manner that a given amount may be deducted before the end of the cash discount period. * Trade discount.   + Some suppliers have list prices. The list price is the published price set by the supplier from which a percentage or trade discount is taken.   + The discount awarded to the retail company is based on the business classification, for example, wholesaler or retailer.   + The purpose of this type of arrangement is for the supplier to publish one set of prices and to merely assign an appropriate discount percentage to different categories of buyers. * Quantity discount.   + Quantity discounts may apply, but both the buyer and supplier should take cognisance of relevant regulations. * Seasonal discount.   + Seasonal products such as swimwear and outdoor furniture are sometimes offered with discounts prior to the selling season.   + The objective of this is to motivate retailers to purchase these items early in the season so that the supplier can minimise the costs of warehousing.   + The retailer needs to consider own storage facilities and the cost of storage. * Postdating.   + Postdating involves an additional period of time before payments become due.   + This is also called “dating the order”. It enables the retailer to sell some of the merchandise before payment must be made.   ***Advertising allowances:***  Most retail companies have limited budgets for advertising.  Retailing is, however, very competitive and it is important to publicise merchandise regularly. This situation may be partially overcome by retail companies and suppliers participating in cooperative advertising. In some instances, suppliers pay up to a half of the advertising costs.  ***Growth incentives:***  Where the supplier is keen to increase the total volume a rebate or growth incentive based on incremental growth in orders is often used.  Growth incentives may be negotiated to motivate a supplier by means of a reward if the supplier performs at pre-determined criteria such as cost, schedule, quality or safety that may result in benefits for the retailer such as:   * Inventory reduction * Increased sales * Reduced cost   In addition to financial reward, the supplier may also expect to gain a better reputation as a successful supplier.  Growth incentives could take the form of a year-on-year target, with a supplier rebate applying if the purchased volume exceeds the growth baseline.  ***Penalties***  Most procurement contracts contain a penalty clause.  Penalties are imposed when the supplier does not abide by the contractual obligations in the contract.  The purpose of penalties is to have a mechanism where it is known when a penalty will be imposed. This can either be a % or an amount of the contract value.  ***Rebates***  A rebate is calculated as a sum of money payable back to the buyer by the supplier, based on actual purchase volumes over the previous operating period.  The arrangement is attractive to suppliers, as the discount is based on actual rather than estimated volumes and is payable in arrears.  Rebates may also be negotiated for:   * **Product launches.** When introducing new products, it is common to link spend on the new range to discounts on regular purchases. For example, a supplier might offer an extra 1% discount across the entire product range in exchange for a spend of a specified amount on the new product. * **End of life promotions.** As old versions of certain products (such as cell phones, laptops, etc.) are being phased out, or when the packaging design of a product is changed, suppliers might want to ship as much of the remaining stock as possible before the new version appears. The supplier sometimes achieves this through extra volume discounts on the old lines. * **Product mix incentives.** To encourage buyers to make purchases across a range of products, suppliers might provide a rebate based on total spend over a period.   ***Swell allowances***  A method of automatically deducting a fixed percent from the supplier’s invoice payments to compensate the retailer for items not fit for sale. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 7 | KM03KT01 IAC0307 | Describe typical methods for recording minutes of a negotiation. | 10 |

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| ***Minutes of a negotiation***  Minutes of the meeting(s) should be recorded and distributed to all stakeholders.  Minutes of a meeting is a document that records all the discussions that take place between the buying team and the supplier team, as well as any consultants that may have attended the meeting.  The minutes should be based on the agenda and contain all further matters that were added to the agenda and discussed during the meeting.  The minutes should include:   * Date, time and venue of the meeting * Names and roles of attendees as well as apologies for people who could not attend * Purpose of the meeting * Discussion points, based on the agenda, and including any further discussion items that were not on the agenda * Outcomes/decisions/agreements * Action to be taken; by whom and by when   ***First draft contract/agreement***  Once agreement has been reached, negotiations are concluded, and minutes of the meeting(s) have been confirmed as accurate and complete, the first draft agreement should be prepared and sent to the supplier with a request for comments and agreement. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 8 | KM03KT01 IAC0308 | Describe what needs to be included in a buying contract for supplier of merchandise | 20 |

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| * An unambiguous description of the goods to be supplied. * Duration of the contract and, where appropriate, specific delivery dates and quantities * Quality standards and acceptance criteria. This may be in the format of a separate specification, where appropriate. * Details of reports required, their scope and timing, where appropriate * Price or pricing mechanism and what the price includes * Payment terms and a term to permit the recovery of any money owing * Intellectual property rights * Confidentiality * Security * Publicity * Right of audit * Indemnity and insurance provisions * Terms relating to compliance with legal obligations, such as corrupt gifts and payments of commission, unlawful discrimination, health and safety, etc. * Specifications. There are two basic approaches to specifications, namely performance specifications and conformance specifications.   + A performance specification gives a clear indication of the purpose, function, application and performance expected of the supplied merchandise. The detailed specification is provided by the buyer and agreed between the two parties – the supplier should be given the opportunity to make an input.   + A conformance specification defines as aspects such as quality and/or environmental specifications. * The buying company’s (customer’s) right of termination in the event of the supplier’s default * The customer’s right to break the contract, with the obligation to give written notice and pay for work done/goods delivered, even in the absence of any breach on the part of the supplier * A term to prevent the supplier from transferring the contract to a third party * A term to describe when ownership and risk passes to the customer * A term to describe action that may be taken in the event of the customer not paying * A term stipulating which law governs the contract * An arbitration or dispute resolution clause |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 9 | KM03KT02 IAC0201 | Discuss the 10 generally accepted pricing strategies used in the industry | 25 |

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| 1. ***Cost-based pricing***   Cost-based pricing (also called mark-up pricing) is the simplest way to calculate the selling price of merchandise.  The company calculates the cost of the product and adds on a percentage (profit) to that price to calculate the selling price.    The components of costs in the retail industry that may be taken into consideration when calculating the cost of the product are:   * Variable cost: Consisting of direct materials and direct labour and consumables. These are directly attributable to each unit of product. Variable cost can also be the cost per item, if prices vary * Fixed costs: These are not directly at­tributable to the product or service but have to be incurred. Fixed costs are also known as overhead costs. They do not vary with sales level. Examples are the monthly rent, interest or salaries. * Financial costs and profits: Consisting of depreciation, interest, and return on investment.   **The situations under which prices are based on costs are include:**   * When the number of competitors in market is limited to one or two. Cost-based pricing allows the competitors to make adequate returns and makes them hopeful of achieving the target returns. * The company may need to come up with a new price for a product that does not already have a price.      1. ***Demand-based pricing***   Demand-based pricing is a strategy based on known periods or high or low demand and the elasticity of price during those periods.  One of the simplest examples is the pricing and selling dynamics at your local fresh produce markets. Early in the morning when the market opens, there is the best selection but at the highest prices of the day. Later during the day as the market nears closing, there will normally be a reduction in price because sellers are trying to avoid having any product left unsold. Another factor that influences demand pricing at the market, is the relationship between the quantities of a particular product available against expected sales (the concept of demand versus supply).  Another example of is when down parkas are offered by department stores at the beginning of autumn, they will be at their highest-ticketed price. And that will continue throughout the prime selling season. Then, when it is time for swimwear and shorts to arrive on store for spring, the price of those down parkas is likely be greatly reduced. With falling demand for down parkas, the retailer lowers the price in efforts to reduce inventory.  ***3. Competition-based pricing***  Competitive-based pricing occurs when a retail company sets prices for its merchandise based on what competitors are selling a similar product for.  For a vast number of products, consumers have many choices and are generally willing to shop around to get the best price. Where retailers apply competitive pricing strategy, they need to provide outstanding customer service to stand above the competition.  The competitive pricing strategy is used by retailers to boost sales and gain a competitive advantage through smart pricing that differentiates them from competitors.  Two types of competitive pricing may be used:   * **Pricing below competition** – involves pricing products lower than the competitor's price. This strategy works well if you the retailer can negotiate the lowest buying prices from suppliers, reduce other costs, and develop a marketing strategy to focus on price specials. * **Prestige pricing, or pricing above the competition** - may be considered when exclusivity or unique customer service can justify higher prices.   There are substantial drawbacks and risks related to a simplistic implementation of competition-driven pricing strategy. A retailer who blindly follows competitors would most likely get involved in devastating price wars that damage the financial health and price positioning of all parties who participate in the price war.  Instead of pricing every product following the competition, the buyer should consider the role that every SKU plays in the category portfolio and apply a corresponding pricing approach. Where a pricing strategy of “best price guarantee” is followed, it is important to remember that the retailer cannot use the same strategy for the company’s exclusive ranges.  ***4 Value-based pricing***  Value is defined as perceived benefits for the total cost of acquisition.  Value-based pricing is often used to build a loyal customer base. With this strategy, items are usually priced low for the items of higher quality. This is due, in part, by the fact that prices are determined based on how consumers perceive the value of the product to be, and such perceptions are often lower than it actually is.    ***5 Premium-based or prestige pricing***  Premium pricing is used by the retailers who differentiate themselves from competitors as ones selling better or unique products and who provide premium service. This pricing strategy is, therefore, often used for exclusive, luxury items.  A high price is set as a way to show that the item is of high value. The practice is the practice of keeping the price artificially high to encourage favourable perceptions among buyers, based solely on the price. Premium pricing is intended to exploit the tendency for buyers to assume that expensive items enjoy an exceptional reputation or represent exceptional quality and distinction.  This strategy is sometimes also called skim pricing because it is an attempt to “skim the cream” off the top of the market. It is used to maximise profit in areas where:   * customers are happy to pay more; * there are no substitutes for the product; * there are barriers to entering the market; or * when the seller cannot save on costs by producing at a high volume.   Premium segment buyers tend to consider making purchasing a means of reinforcing their social status.  ***6 Penetration pricing***  Penetration pricing is usually used in the introductory stage of a new product ‘s life cycle. It involves pricing relatively low and accepting a lower profit margin during this stage.  This pricing strategy is used to build large volumes.  In order to get larger number of customers to do a trial, the initial introductory offer is based on low price. Once the product becomes well known, the prices are set back to the normal level where they should be. Customers are usually informed that the price will only be for a special period.  ***7 Bundled pricing***  The [bundled](https://competera.net/resources/articles/bundle-pricing-strategy) pricing strategy implies selling a set of products for a lower price than each of these products separately.  Bundled pricing strategy is used to create the impression of “more for less”.  The main advantages of bundle pricing strategy stem from the fact that customers like purchasing products in groups, as it usually adds value to their buying experience. Shoppers also tend to enjoy avoiding frustration while choosing complementary products.  The retail chain may separately offer a specific brand of shampoo for R50 and the same type of conditioner for R48. However, in order to get customers to buy both, the two may be offered as a combined bundle for R85. This bundled price lets the customers focus on the benefit of a total bundle, instead of making them nervous about spending well close to R100.  ***8 Promotional pricing (also called high-low pricing strategy)***  Promotional pricing involves temporary reduction of the price of an established product in order to increase interest in customers. This is sometimes done because the sales of the product are falling, and the company wants to renew customer interest in it.  Promotional pricing is also applied wen a product has gone out of fashion, or stock levels of merchandise that will not be sold again are low and the retailer wants to clear such stock.  Promotional pricing sometimes includes a “buy-one-get-one-free” scheme. This usually increases interest in goods, so sales are also likely to increase dramatically.  ***9 Segment-wise pricing***  Segment-wise pricing differentiates the price based on the target group of consumers.  For example, a number of software packages, including Microsoft Office and Microsoft Windows XP, etc., are offered at different prices in different segments of the market.    ***10 Psychological pricing***  **Psychological pricing is based on the concept that various levels of prices have different psychological impacts on consumers.** The psychological effect is considered while pricing products to maximise revenue and profit.  Anchoring techniques are often used to capitalise on the concept of psychological pricing. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 10 | KM03KT02 IAC0202 | Explain the difference between margin and markup. Give examples. | 5 |

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| The difference between profit margin and markup is that profit margin is sales minus the cost of goods sold; meanwhile, markup is the amount by which the cost is increased on a product to arrive at the selling price.  **Examples:**   * Margin (also known as gross margin) is sales minus the ***cost of goods*** sold. For example, if a product sells for R100 and costs R70 (calculated cost of sales), its margin is R30. Or, stated as a percentage, the margin percentage is 30% (calculated as the margin divided by sales). * Markup is the amount by which the cost of a product is increased in order to derive the selling price. To use the previous example, a markup of R30 from the R70 cost yields the R100 selling price. Or, stated as a percentage, the markup percentage is 42.9% (calculated as the markup amount divided by the product cost). |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 11 | KM03KT02 IAC0203 | Discuss the makeup of GP and the buying factors that impact on profit. | 10 |

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| ***How gross profit is made up***  The retail company’s overall gross profit is the profit the company makes after deducting the costs associated with making and selling its products.  ***Factors that impact on profit***   * **Price points.** Price is one of the leading factors that influence a customer's decision on whether to buy an item. Buyers must decide on a price point for each product that is high enough to cover costs and make a profit, but not so high that it drives away potential buyers. The buyer should, therefore, carefully calculate price points when considering buying merchandise. * **Cost of goods sold (COGS).** The cost of goods sold is the sum of all the costs involved in selling the product. When a retail store can lower any component of its cost of goods sold, the gross profit goes up. Stores that can find methods to reduce their cost of goods sold will see an increase in gross profits. * **Total cost.** The factor of total cost of merchandise was discussed earlier. When making buying decisions, the buyer should ensure that merchandise is sourced and bought from suppliers where factors such as transport, distribution, import costs and storage costs will be a low as possible. * **Product mix.** The product mix enables retailers to offer different products, which attract a wide range of potential customers. Retailers can set different gross profit margins for each and find the most profitable blend of products. When deciding on the product mix and relevant pricing during the buying process, the buyer should carefully consider the products in the product mix and how they are priced, so that “conflict” does not develop. Jacobsen quotes an example where the price of one item “killed another item, resulting in required markdowns and financial loss. Knit garments that were deemed sellable as the prices were reasonable for the quality and styling of the garments, were ordered from an Italian supplier. At the same time, budget knitwear of a similar style was ordered from a local supplier and priced to be sold at below-budgeted margin as a promotion for the season. These promotional items sold very well and sold out but made the overall margin for the department plunge for the first two months of the season. In an effort to compensate for the reduced overall margin, and achieve the budgeted margin, the price of the Italian merchandise had to be increased. This price increase resulted in an exaggerated markup and prices that consumers did not accept. Markdowns were required and this did not resolve the non-achievement of the targeted margin. A more carefully selected product mix could have prevented this negative impact on profits. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 12 | KM03KT02 IAC0204 | Discuss the concept of loss leaders and the impact they have on a business | 5 |

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| **Loss leader pricing** is a marketing strategy that involves selecting one or more retail products to be sold below cost – at a loss to the retailer – in order to get customers in the door. The loss leaders are the products being sold at such low prices as an enticement to buyers to step foot in the store.  This strategy is often used in supermarket chains for items that consumers ***need***, for example bread and milk, in locations where these items are highly price sensitive. While customers are in the store, they may buy additional items that have a higher profit margin.  The potential (expected) impact of loss leader pricing strategy is two-fold:   * It draws more traffic and lure customers away from competitors. * It increases the convenience factor for customers and their buying of merchandise with a higher margin increases profits for the store. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 13 | KM03KT02 IAC0205 | Discuss the factors in the economy that could impact on the setting of the selling price of a product. | 10 |

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| Several factors in the economy could impact on the selling price of merchandise. These include:   * Inflation * Economic trends * Exchange rates * Supply and demand   ***Inflation***  Higher inflation raises the cost of living. The impact on workers depends on what happens to nominal wages. For example, if inflation is caused by rising demand and falling unemployment, companies are likely to raise wages to keep attracting workers. In this case, workers real wages will continue to rise and inflation will not have an impact on selling prices.  However, if inflation rises significantly without a matching increase in salaries and wages, selling prices of most products will be impacted as retailers might need to set their gross margin targets lower, to prevent a drastic decrease in sales.  ***Economic trends***  When an economy is booming, retailers usually do not experience problems in attaining gross profit margins based on what they consider as reasonable prices for merchandise to sell. However, during more difficult economic periods, retail chains need to be more cautious in setting selling prices to ensure that they do not alienate their target customer market. An example is the global Covid-19 pandemic, during which the incomes of millions of people were reduced and many workers were retrenched.  ***Exchange rates***  A country’s exchange rate is impacted by the trade account, which is the difference between the money the country gets in from exports, and the money the country pays out for imports.  When a country is paying more for imports than it is earning from exports, a trade deficit exists. This depreciates (“weakens”) the country’s currency in comparison to the currencies of other countries.  A weakened currency increases the cost of imported products. During such times, retailers should carefully consider how they set selling prices and they may need to “absorb” some of the increased costs in order to not price their merchandise above levels acceptable or affordable by consumers.  An appreciation of the exchange rate usually reduces the price of imported consumer goods and durables, raw materials and capital goods.  According to Investopedia, a weak domestic currency can push up the inflation rate in a nation that is a big importer, because of higher prices for foreign products. This may induce the central bank to raise interest rates to counter inflation, as well as to support the currency and prevent it from plunging sharply. Conversely, a strong currency depresses inflation and exerts a drag on the economy”… In response, a nation's central bank may move to keep interest rates low or reduce them further so as to preclude the domestic currency from getting too strong.” Exchange rates, therefore, have a direct impact on the interest rates that consumers pay on their home bonds and car loans, among others. This may leave consumers with less or more discretionary spending (when interest rates increase or decrease, respectively). The amount of money available for discretionary spend often impacts on a retail chain’s pricing strategy and decisions.  ***Supply and demand***  **Supply** refers to how much of a product is available. **Demand** refers to how much of a product is wanted by consumers. The term, **supply and demand,** refers to the relationship between the quantity that is available, and the quantity wanted by consumers.  The concept of supply and demand is an economic model of price determination in a market. It concludes that in a competitive market, the unit price for a particular product will vary until it settles at a point where the quantity demanded by consumers (at current price) will equal the quantity supplied by producers (at current price), resulting in an economic equilibrium of price and quantity. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 14 | KM03KT03 IAC0301 | Discuss the factors that impact on order quantities including:   * Number of stores * Expected sales * Over/undersell * Past sales * Promotions * Trends * Budget * Lead time | 7 |

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| ***Number of stores***  The number of stores for which stock must be ordered, and stock turn, impact on order quantities. The buyer should ensure that sufficient stock is ordered for all stores to prevent stockouts (on the one hand) but also overstock (on the other hand).  ***Expected sales***  Expected sales is critical when making decisions on order quantities.  Sales forecasts need to be done for individual stores as well as all the stores combined. This is achieved by considering past sales and taking into consideration any situations that might lead to an increase or a decrease in expected sales.  Demand forecasting is used to estimate how much stock is needed for a given period. Several methods of demand forecasting is available.  ***Over/undersell***  It is important for the buyer to strike the right balance in ordering stock, to prevent understock or overstock situations.  In a case where undersell occurred in the past, the buyer will need to use past sales information to forecast future sales, and adapt ordering quantities accordingly. Where oversell occurred, estimates should make provision to prevent understock situations.    ***Past sales***  Past sales impact on order quantities. When the buyer studies past sales, he or she needs to estimate whether future sales will be the same, better or worse than past sales. In the case where past sales were not as expected, the buyer will naturally order smaller quantities.  ***Trends***  Trends play an important role in ordering quantities. Retail chains should take advantage of the opportunity to sell more during trends in popularity of certain products. The buyer should order more of these products at the beginning of the trend but should be cautious about re-ordering, especially where long lead times exist to ensure that all the merchandise will be sold before the trend fades away.  ***Budget***  There is an interrelationship between buying and financing. The finance department is responsible for ensuring that the budget is controlled and that cashflow is managed carefully. In most companies, the budget is usually reviewed during the financial year.  When deciding on order quantities, the buyer should ensure that the cost of quantities of stock being ordered is within the budget.  ***Lead time***  Lead time refers to the number of days between replenishment order and receiving of the stock, including the time it takes to enter the stock into the system and place it onto the shelf. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 15 | KM03KT03 IAC0302 | Describe generally accepted methods used to calculate order quantities | 15 |

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| The most commonly used methods for making decisions on order quantities include:  ***Demand forecasting*** including lead time and safety stock. Demand forecasting is used to estimate how much stock is needed for a given period. It is the real foundation of successful replenishment and has a big impact on effective replenishment.  Where sales history is available, quantitative demand forecasting is done. This is a method where lead time and safety stock required are included in the demand forecasting to calculate order quantities.  Chain stores – in fact, all retail stores - must hold a *safety stock* to meet unpredicted sales. To attain that, threshold stock levels should be calculated and maintained.  ***Six-month merchandise planning***  In most retail operations, plans are formulated for six months.  The six-month plan stipulates how much money the buyer will be allowed to spend. Given this information, the buyer completes the necessary forms to record the figures. According to Diamond and Pintel, buyers usually complete two forms:   * A form that addresses particular items in the inventory that will be continued and the targeted quantity increase or decrease * A form that uses the overall amount, without attention to specific products.   External factors such as economic trends are considered when planning order quantities.  ***Model stock development***  Proper assortment planning is critical for profits. The retail company’s inventory must contain a satisfactory assortment of items to satisfy customer needs. Therefore, the buyer needs to develop a model stock, which is a merchandise offering that carefully outlines:   * Staple versus fashion merchandise * Classifications of merchandise to be purchased * Subclassifications * Price points   ***Open-to-buy planning***  The buyer needs to know how money is available to buy. There must be e nough money in the budget to buy according to the plan, or the plan must be adapted.  Diamond and Pintel argue that the buyer should have an open-to-buy (OTB). This is the difference between how much the buyer needs for a period to buy the merchandise required less the merchandise that is already available.  Calculations are complex and most software programmes can calculate the open-to-buy  ***Economic order quantity***  The economic order quantity (EOQ) is a quantity designed to assist companies in calculating order quantities so as to not over- or under-stock inventories.  The economic order quantity is the point that optimises both the cost of ordering and the carrying costs.  ***Automatic stock replenishment***  In many retail environments, inventory is based on regular needs of customers and is not affected by fashion.  Buyers must ensure that there is always sufficient stock in the stores.  One way in which the retail company can make sure that staple merchandise is always at the required stock level, is to use computerised automatic reordering. Such software systems analyse every staple item in terms of sales patters over a period of time and determines the ideal inventory level. The ideal inventory is then compared to the actual inventory on hand. When the inventory level is below the ideal level, the computer system automatically generates a printed order that can be checked by the buyer before it is transmitted to the supplier. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 16 | KM03KT03 IAC0303 | Discuss typical methods used to record orders placed | 6 |

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| |  |  | | --- | --- | | **E-mail and other electronic communications** | This is not ideal, because e-mail is a text-based system and orders need to be read into the supplier’s system. Therefore, e-mails entail extra work.  Liaison between buyer and supplier is required to ensure this process of ordering is accurate.  The supplier should ensure that they have an up-to-date list of persons who are authorised to place orders and to ensure that a formal process required in the buying company is not by-passed. | | **Manual orders** | Where suppliers need a formal contract or signature, authorised media can be agreed on. Occasionally, there is a legal aspect to be enforced, either by the buyer or supplier. It is, therefore, important that the agreed processes for ordering and delivery requests be followed. | | **Online orders** | Some suppliers have systems through which orders can be recorded online. In such cases, orders are directly led into the supplier’s system.  This is an efficient method for recording orders, as progress with processing of the order can usually be traced online as well. | |