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| **MODEL ANSWERS – KNOWLEDGE TEST** | |
| Qualification | 332301 Retail buyer |
| Knowledge module | KM01 Concepts and principles for managing supplier relationships and the performance of merchandise |

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| Total possible marks | 346 | Minimum marks required | 276 (80%) |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 1 | KM01KT01 IAC0101 | Explain the role of the buyer in the buying cycle and how the buyer impacts on the buying cycle. | 10  (1 mark per function in the role and 1 mark per fact listed under impact – maximum 10) |

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| Role | Impact |
| Typically, the role and responsibilities of a buyer include:   * **Developing merchandise strategies** for the product line, store or company. * **Planning and selecting merchandise assortment**. The merchandise must be suited to the needs and wants of the customer target market. The buyer must not only select merchandise that has the potential for resale and profit, but he or she must also carefully plan the purchases. The planning includes:   + Determining what will be bought (product range planning).   + Determining the appropriate time for the merchandise to be available to shoppers. * **Supplier selection and management.** The buyer evaluates andselects suppliers who meet requirements. They also build and maintain relationships. * **Pricing the merchandise** to a achieve the targets in terms of gross margins. * **Communicating with the merchandise departments.** Buyers need to communicate with merchandising departments and stores not only to provide information on the new merchandise, but also to get feedback from the people who interact with customers on a regular basis. Communication may take place in the form of store visits, telephone communication, and e-mail. * **Advertising, promotion, visual merchandising and publicity**. Although large retail chains have staff components with responsibility for developing advertisements and promotional activities, it is the buyer who has the expertise to select specific products to be advertised or featured in displays. The buyer is the one who knows what the hot selling points are that should be stressed. * **Evaluation of suppliers and merchandise**. To ensure that the right merchandise is available, according to specifications and to ensure profitability, the performance of suppliers as well as merchandise need to be evaluated. | The buyer impacts the buying cycle by:   * deciding on the product range, * negotiating prices; and * determining when the products should be available.   These, in turn, impact on customer satisfaction and brand building. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 2 | KM01KT01 IAC0101 | Explain the role of the planner in the buying cycle and how the planner impacts on the buying cycle. | 10  (1 mark per function in the role and 1 mark per fact listed under impact – maximum 10) |

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| Planners ensure that products appear in the right *store* at the right *time* and in the right *quantities*.  The responsibilities of the planner include:   * Sales forecast * Studying market conditions and consumer buying behaviour * Effective ordering in terms of quantities of specific products (including factors such as colours, and sizes for clothing) * Efficient and effective inventory planning * Merchandise allocation * Overseeing delivery and distribution of merchandise. | Effective planning has a crucial impact on a retail business as it has a significant impact on profits.  If the right stock is not allocated to the right places at the right time this will impact negatively on sales and the success of a retail chain. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 3 | KM01KT01 IAC0101 | Explain the role of the following role players in the buying cycle and how they impact on the buying cycle: | 8  (1 per relevant fact) |

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|  | **Role** | **Impact** |
| Finance | Finance makes payments to suppliers and measures profitability. | Timeous payment according to the buying agreement has a positive impact on relationships with suppliers. |
| Marketing | Marketing introduces new products, develops advertisements and sales promotions. | Effective marketing increases sales and profits. |
| Warehousing and logistics | Warehousing and logistics are responsible for moving allocated merchandise to the stores on time. | If these functions are not effective, sales opportunities will be lost,  impacting negatively on profits. |
| Store operations | Stores are ultimately responsible for presenting and selling merchandise to customers.  This requires effective space planning and communication to customers about new products and features. | The quality of customer experiences created by store staff has an impact on customer sales and customer loyalty |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 4 | KM01KT01 IAC0102 | Explain how the buying and planning functions impact on finances of the company | 5 |

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| The buying and planning functions impact on finances in several ways:   * Buying of merchandise requires financial resources and payment of suppliers. * The quantities of merchandise bought impacts on cashflow of the company. Careful planning, in co-operation with the finance department is important. Finance needs to be consulted to ensure effective financial planning and execution of merchandise orders. * The timeframe in which merchandise is bought and has to be paid for impacts on cashflow of the company. If orders, deliveries and payment for merchandise are spread over a period of time so that income is generated while products are being sold, money is generated to pay for the next order and it has a less severe effect on cashflow. * Pricing of products should be aligned with company financial strategy to ensure profit targets are achieved. * Overstock and understock situations both have a negative impact on finances. Therefore, buying should be carefully planned and scheduled. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 5 | KM01KT01 IAC0102 | Explain how the buying and planning functions impact on the brand of the business | 3 |

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| Buyers and planners source new products and introduce new products and trends into the retail chain.  The speed at which new products are introduced to the stores creates an impression of whether the brand is “up-to-date” with current global brands and able to meet the needs and interests of the targeted customer base.  The type of products sourced and bought, to be sold in the retail chain, further creates an impression of the type of store and the type of customer the company is targeting.  The products draw in a type of customer. Therefore, the merchandise sourced should be aligned to the company’s brand objectives. The targeted consumer base should also be satisfied with the services that the brand is offering.  Especially in fashion retail, buyers and planners promote the latest trends and help people connect to the world of fashion. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 6 | KM01KT01 IAC0102 | Explain how the buying and planning functions impact on turnover, shrinkage and profitability | 5  1 per fact – al least 1 fact per factor |

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| **Impact on turnover**  When the product mix, sourced and bought by the buyer and planner, meets the needs and desires of the targeted customer segment, interest is created, and purchases are stimulated. This increases sales turnover. However, if the buyer and planner cannot shape up to customer needs and desires with the product mix, turnover will stagnate, financial resources will be tied up in stock that does not sell, and eventually this will have a negative impact on the financial health of the company.  **The impact on shrinkage**  Careful selection of merchandise combined with accurate sales forecasts ensure that little markdown will be necessary. This prevents shrinkage due to markdowns. If sales forecasts are too high and large quantities of merchandise need to be marked down, shrinkage will increase.  **The impact on profitability**  Effective buying, planning and merchandising increase sales. Of prices quantities of merchandise and process were calculated correctly, there will be a positive impact on profits. On the other hand, ineffective buying and planning may lead to the need for increased reductions, which impacts negatively on profits.  How the buyer and planner schedule receipt of merchandise, will have a great effect on the company’s bottom line. For example, “frontloading”, where all the products in a range are ordered and delivered at the start of a season, has a serious impact on the cashflow and also storage and shop sales area requirements. Bringing in high quantities all at once creates large invoices and in most cases, invoices need to be paid prior to generating enough income to pay for them. The buyer and planner should aim for paying current invoices with income from current sales.  Inefficient flow of stock lowers the stock turn and as the stock turn goes down, merchandise stays on the sales floor longer and need to be marked down. This has a negative impact on profitability.  If there is new inventory coming in every month, it enables sales staff to reach out to their customers and invite them back into the store to see the new merchandise, creating excitement. That typically results in increased sales and has a positive impact on profitability. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 7 | KM01KT01 IAC0103 | Discuss the interrelationship between the buying and planning functions and other areas of the business, including the relationship between:   * Buyer and planner * Buyer and sales * Buyer and Finance * Buyer and marketing * Buyer and visual merchandising | 10  (1 per fact) |

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| **Relationship between the buyer and planner:**  There is an interrelationship between buyer and planner. The buyer sources products and negotiates prices, while the planner brings in the right quantities of merchandise to the right places at the right time. Good communication between buyer and planner is important.  **Relationship between buyer and sales:** The sales department depends on the buyer to have the merchandise in place to satisfy customer needs. Buying, in turn, depends on the sales department to effectively sell the available merchandise and provide the buyer with feedback on customer response, to assist the buyer in making future buying decisions. **The relationship between the buyer and Finance:** The relationship between buying and the finance department requires ongoing feedback in both directions. The buyer needs to know about the possibilities and constraints that the finance department handles. These include new sources of capital that make it possible to make advantageous inventory purchases and cash flow difficulties that limit purchasing power. In turn, the finance department needs to know when the buyer is working towards an upcoming major merchandise buying contract.  Among the basic data needed by an organisation for proper planning of its working capital and cash flow positions are accurate sales forecasts and accurate procurement schedules. It is important for the buyer and planner to inform Finance of planned purchases.  **The relationship between the buyer and marketing:** The buyer depends on the marketing team to devise effective advertising and promotional strategies, to make consumers timeously aware of new merchandise categories and product ranges, to ensure that the new merchandise will sell in the planned timeframe and at the planned quantities. Marketing, on the other hand, depends on the buyer for timeous information about the product features that meet target market needs so that there is sufficient time to plan and roll out appropriate and effective marketing strategies. marketing needs to know how the merchandise meet customer needs and how the merchandise will add value to the customer.  **The relationship between the buyer and visual merchandising:** The purpose of visual merchandising is to attract, engage, and motivate the customer towards making a purchase.  Visual merchandising increases the visibility of the brand and also enhances brand loyalty.  The buyer depends on the merchandising department to design and erect visual displays in a manner that will draw the attention of the target market and motivate them to make purchases. The merchandising department, on the other hand, depends on the buyer for information about products features and benefits and how these meet the needs and desires of the target market. Since the buyer matches products to the target market, information about the segment that is targeted, is essential information the merchandising department needs from the buyer. This is especially true in departmental store chains that offer a variety of product categories. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 8 | KM01KT01 IAC0104 | Discuss the ethical standards required by people in the buying and planning function | 20 |

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| Use the following as guidelines:   |  |  | | --- | --- | | **Transparency** | The buying and planning process should be as transparent as possible, within commercial and legal parameters.  This requires that all parties involved should be open, so that everyone understand the procedures, timescales, expectations, requirements and criteria for selection.  No relevant information should be deliberately withheld by either party, nor should misleading information be given. | | **Integrity** | Integrity is about maintaining moral standards. No corruption or fraud must be present in the buying and planning process.  The United Nations (UN) defines fraud as “the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his/her detriment, for example in order to influence the competitive selection process or the execution of a contract.  The UN lists four common fraud scenarios in the buying process:   * A person with responsibility for buying defrauds his or her employer. * Suppliers defraud their customers. * Suppliers and buyers work together to defraud the buyer’s employer. * Buyers make personal gain at the expense of the supplier.   The Logistics Bureau adds the following as examples of immoral practices:   * **Bribery.** Payments in cash or in kind made to individuals or their friends, family, or partners to buy their support for a supplier or a contract negotiation. Bribes can occur before, during, or after (kickbacks) award of a contract. * **Coercion.** Threats made against or pressure put on individuals with the same objective as bribery, namely to gain support for a supplier or contract negotiation. Coercion aims to motivate through the fear of what they might suffer or lose. * **Extortion.** Asking for a bribe or similar payment. * **Favouritism:** Also known as nepotism, in which individuals give undue preference or negotiating advantage to a supplier who is a friend or part of the same family. * **Illegal sourcing.** Suppliers offer goods or services misrepresented or produced illegally or immorally, whether because of materials used (such as the substitution of horsemeat for beef) or the labour conditions in which production takes place (notably in the garment industry). * **Traffic of influence.** The exchange of an award of contract (or support for the award) for a favour or preferential treatment by the other party of another individual or organisation.   The Chartered Institute of Purchasing and Supply provides more examples of unethical behaviour:   * Payment for being an approved supplier. | | **Impartiality** | Impartiality implies objectivity, lack of bias, tolerance, and restraint.  The same standards should be applied to all potential suppliers. | | **Fairness** | When a supplier asks for clarification, the buyer and planner should give all suppliers the requested information.  The same standards should be applied to all potential suppliers. | | **Confidentiality** | Suppliers' confidential information must not be disclosed to any third party or used in any way without the consent of the supplier. It must particularly not be shared with other suppliers.  Any information that might compromise the competitive edge of a supplier must be kept confidential. | | **Due diligence** | *Due diligence* refers to carrying out duties carefully and thoroughly and avoiding careless practices or techniques.  Due diligence requires:   * Checking the references of potential suppliers * Developing impartial evaluation criteria * Carefully analysing offers received * Not cutting corners for the sake of convenience. | |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 9 | KM01KT01 IAC0105 | List behaviours that are conducive to working in a team.  Explain how these behaviours impact on team dynamics. | 10 |

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| 1. Everyone on the team talks and listens in roughly equal measure, keeping contributions short and sweet. 2. Members face one another, and their conversations and gestures are energetic. 3. Members connect directly with one another — not just with the team leader. 4. Members periodically break, go exploring outside the team, and bring information back.   The leader of the meeting should encourage participation.  Participation can be encouraged by:   * Listening sincerely to all contributions. * Giving recognition for contributions. * Asking questions to make people think or rethink issues. * Putting in effort to understand different points of view and helping other members to understand as necessary. * Managing dominant participants and drawing out quieter people.   **IMPACT:**  Encouraging discussion and participation by attendees is critical to the successful implementation of decisions because people implement decisions more readily or enthusiastically if they had participated, because they have had the opportunity of being heard. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 10 | KM01KT02 IAC0201 | Describe the following supply chains:   * Hot supply chain * Cold supply chain * General supply chain | 10 |

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| **Hot supply chains**  The hot supply chain basically only refers to the preparation, storing and selling of hot foods in a retail chain store.  Food safety standards specify that potentially hazardous foods must be stored, displayed and transported at safe temperatures and, where possible, prepared at safe temperatures.  Safe temperatures are 5°C or colder, or 60°C or hotter. Potentially hazardous food needs to be kept at these temperatures to prevent food-poisoning bacteria, which may be present in the food, from multiplying to dangerous levels. These bacteria can grow at temperatures between 5°C and 60°C, which is known as the temperature danger zone. The fastest rate of growth is at around 37°C, the temperature of the human body.  **Cold supply chain:**  The cold chain involves the transportation of temperature sensitive products along a supply chain through thermal and refrigerated packaging methods and the logistical planning to protect the integrity of these shipments.  **General supply chain:**  The general supply chain may, therefore, be illustrated as in Figure 6. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 11 | KM01KT02 IAC0202 | Explain the concept of logistics | 5 |

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| **Logistics** is the *process* of *planning*, *implementin*g, and *controlling* procedures for the *efficient and effective storage of goods*, services, and related information from the point of origin to the point of consumption for the purpose of conforming to customer requirements.  The process occurs between the point of origin (manufacture) and the point of consumption in order to meet requirements set by customers.  The main aim of logistics management is to allocate the right amount of a resource or input at the right time. It is also ensuring that it gets to the set location in a proper condition while delivering it to the correct internal or external customer. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 12 | KM01KT02 IAC0203 | Describe the distribution methods **and their impact** on buying and planning:   * Intensive distribution * Exclusive distribution * Selective distribution | 15 |

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| | **Distribution method** | **Description** | **Impact on buying and planning** | | --- | --- | --- | | **Intensive distribution** | With intensive distribution, a manufacturer’s products are put into as many retail locations as possible.  This method hinges on making a large number of goods available in multiple locations. These items do not typically necessitate an involved purchase decision where the customer (buyer and planner) does research before making a purchase.  Rather, these items are routine purchases that involve very minimal effort to sell. Examples are major brands of soft drinks and chocolates. | * With products available through intensive distribution, it is important that the buyer and planner do effective sales forecasts and negotiate the best possible prices for the products. * The buyer and planner must also ensure that they understand how the supply and delivery schedules work, to ensure that lead times and safety stock are calculated accurately in order to make sure that sufficient stock levels are always available in the chain stores. | | **Exclusive distribution** | When manufacturers opt for exclusive distribution, they make a deal with a retailer to sell a product through that specific storefront only, or they sell their goods directly through their own branded stores.  This distribution strategy works especially well for highly coveted, exclusive items. | * When a buyer and planner are interested in exclusive brands for their retail chains, they need to negotiate with the manufacturer where there is still room for exclusive distribution by the retail chain they represent. * Buyers and planners can also negotiate with manufacturers to specifically manufacture specific items, for which the retail chain will have exclusive distribution rights. | | **Selective distribution** | Selective distribution is an option between intensive and exclusive distribution.  With this distribution method, products are distributed in more than one location, but not as many as with an intensive distribution strategy.  For example, clothing from different brands may be offered selectively. A brand like Gucci may choose to distribute its items to its own stores in addition to a few selected department stores rather than placing its products in a range of locations.  Selective distribution helps create an implicit high-end brand message while it also increases the opportunity for shoppers to purchase the products. | Buyers and planners should source brands and products where there is scope for selective distribution through the retail chains that they represent. Examples are fashion and accessory brands. These may typically attract high-income consumers, and thereby profits can be increased while the retail chain’s brand is built. | |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 13 | KM01KT02 IAC0204 | Discuss the interrelationship between the role players involved in the flow of merchandise to stores:   * Between buyer and vendor * Between buyer and distributor * Between vendor and distributor * Between buyer and stores * Between stores and customers | 10  1 mark per fact |

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| **Interrelationship between buyer and vendor**   * The buyer communicates with the vendor about product requirements. The vendor (supplier) is dependent on the buyer for accurate and sufficient information on requirements to enable the vendor to suggest prices and lead times for delivery. * Once prices have been negotiated and agreed on, the buyer is dependent on the vendor for sending the right products in the right quantities to the right place at the right time and with a correct invoice.   **Interrelationship between buyer and distributor**   * The buyer communicates the type of product, the quantities and delivery times to the distributor. The buyer may also communicate types and quantities of product to be distributed to various stores in the chain. * The distributor is dependent on the buyer for the correct information. * The buyer is then, in turn, dependent on the distributor for distributing the right products in the right quantities to the right places (stores or warehouses).   **Interrelationship between vendor and distributor**   * The vendor is dependent on the distributor to have the correct type of and enough storage and handling facilities to ensure there will not be any loss of integrity or quantities of the products sent to the distributor. * The vendor is also dependent on the distributor to send the right products in the right quantities to the right places, as agreed between buyer, vendor and distributor. * To be able to send the right products in the right quantities to the right places, as agreed between buyer, vendor and distributor, the distributor is dependent on the vendor to send the right products in the right quantities at the right time to the distributor.   **Interrelationship between buyer and stores**   * Stores are dependent on the buyer to understand their target markets and to buy the correct types of products in the right colour, sizes and quantities for the stores to meet the needs and desires of their target market customers. * The buyer is dependent on the stores to ensure merchandise is displayed correctly and attractively, aligned to the target market customers and their needs, so that the products will sell as planned and that mark-downs and damages will be limited.   **Interrelationship between stores and customers**   * Customers are dependent on stores to ensure the right products are available at the stores in the right quantities, at the right time and the right price. * Stores are dependent on customers to be loyal and buy the products that are available. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 14 | KM01KT03 IAC0301 | Describe the responsibilities of the buyer in managing the supply chain | 10  1 mark per responsibility and per fact |

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| The three key responsibilities of buyers in managing the supply chain are:   * **Building and maintaining supplier relationships**. In the current economy, the buyer and supplier collaborate to ensure that the supply chain is effective and stable.   In this collaborative relationship, the buyer:   * + needs to build strong and trusting relationships with suppliers. If he or she fails to do this, the supply chain becomes weak and risks being unable to cope with sudden variances.   + needs to work with suppliers to make sure that the suppliers can deliver the merchandise when needed or on a continuous basis, and to ensure that the price will be as was agreed.   + must keep a watchful eye on what the supplier’s competitors is offering, to ensure that the buying company is getting the best deal. * **Quality control.** The second key responsibility of the buyer in supply chain management is to control quality. Buyers play a role in ensuring that the items they purchase are of good quality and that the quality is consistent, within set parameters.   This means that the buyers must be aware of quality issues and not allow price to outweigh the demand to have good quality products available.     * **Innovative approach**   Buyers also must be mindful of new innovations especially in terms of changing consumer needs, new innovated products, product cost, distribution methods, and environmental considerations.  The key objective of an innovative approach is to support supplier development activities by promoting new technology opportunities, and by ensuring that there are no contractual issues prohibiting the development.  Another way to ensure the current supplier follows the market trends is to compare the suppliers’ operational performance and cost in relation to its competitors (e.g. benchmark). |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 15 | KM01KT03 IAC0301 | Describe the responsibilities of the planner in managing the supply chain | 12 |

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| The key responsibilities of the planner I terms of supply chain management include:   * **Sales forecast and spend monitoring**   In terms of *managing the supply chain*, the planner is responsible for regular reviews of sales forecasts, based on current sales, so that forecasts can be adapted where necessary because of higher or lower sales than the forecast.  The planner is also responsible for managing the merchandise buying budget to ensure profitability.   * **Monitoring prices and terms**   During the merchandise planning process, the planner sources suppliers and negotiate prices and terms.  During the supply chain management process, the planner should monitor prices, product compliance to specifications and supplier compliance to agreed terms.   * **Studying market conditions and consumer buying behaviour**   Market conditions and consumer buying behaviour are constantly changing. The planner should consistently study changes in market conditions and consumer buying behaviour. This is critical for monitoring and reviewing sales forecasts and budgets, so that plans can be amended promptly if necessary, to prevent overstock and understock situations.   * **Efficient and effective inventory management**   Supply chain planners are typically responsible for monitoring and managing inventories. They should track delivery performance and response time of the supplier, so that remediation activities can be implemented if necessary.   * **Monitoring and managing pricing strategies**   During the merchandise planning stage, the planner determines and applies pricing strategies to ensure profitability targets will be achieved.  During the supply chain management process, the buyer should monitor whether the planned pricing strategies are achieving the objectives and make amendments as necessary. this is because there could have been changes in costs such logistics and import duty fees.   * **Overseeing merchandise allocation, delivery and distribution**   Merchandise allocation is planned during the buying and planning process.  During the supply chain process, the planner must ensure that the allocation plans remains relevant, based on actual sales at the various chain stores. The planner must also ensure that the right merchandise reaches the stores at the right time, by monitoring distribution and delivery efficiency. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 16 | KM01KT03 IAC0302 | Discuss critical management stages in the management of the supply chain. | 20 |

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| Learner answers should cover the aspects at the top of the diagram. allocate 1 mark per factor and 1 mark per pact mentioned. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 17 | KM01KT03 IAC0303 | Discuss the following generally accepted actions to remedy shortfalls in the supply chain:  Several actions can be taken to prevent or remedy shortfalls in the supply chain process:   * Applying best practices in supply chain management * Identifying and evaluating risks and preparing contingency plans to mitigate risk. * Re-allocation and/or re-allocation of merchandise * Sourcing alternative suppliers * Subtly suggesting alternatives * Increasing focus on logistics | 10  1 per fact |

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| **Best practices:**   * Set up a supply chain council * Collaborate on strategic sourcing * Ensure role players have adequate resources * Implement effective technology * Maintain healthy supplier relationships * Establish KPIs for suppliers and regularly review performance * Optimise inventory * Minimise risk through regular reviews   **Identify and evaluate risk and prepare contingency plans**   * Identify risks * Evaluate risks in terms of probability and severity * Prepare contingency plans to mitigate risks   **Re-allocation and/or re-direction of stock**  Stock can be re-allocated or re-directed from stores or areas where there is more than enough to other stores or areas where stockouts occur due to disruption in the supply chain.  Inventory may be deployed to stores or regions with the biggest product-availability deficits.  **Source alternative suppliers**  Where possible, source alternative suppliers who follow an efficient supply chain model to substitute products where it is feasible.  Secure fast supply, even it if requires reduction in the number of stock-keeping units (SKUs).  **Subtly suggest alternatives**  Assortment planning and positioning on shelves or display areas influence what customers buy.  Research has shown that that a store can utilise assortment planning to entice customers to purchase products that are widely available when certain products are facing supply disruptions.liv A store manager could manipulate customers’ product choice and customers’ demand by reconfiguring the set of products on display, the location of each product on the shelves and the number of facings for each product.  **Increase focus on logistics**  Increase focus on logistics to find alternatives, for example:   * **Multi-modal transportation***.* Source other modes of transport to help cope with the disruption. * **Multiple routes.** Consider using alternative routes to improve product flow along the supply chain. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 18 | KM01KT03 IAC0304 | Discuss typical contingency plans used in managing the supply chain | 15 |

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| **Segment or diversify the supply chain**  When production is centralised, there are risks attached to using only one supplier. The supply chain needs to be flexible to avoid risk of disruption in supply.  Supply chains can be fragmented to improve profits and reduce fragility in the supply chain.  The authors suggest that:   * For high-volume commodity items with low demand uncertainty, the supply chain should have specialised and decentralised capacity. For these fast-moving basic products (typically with low profit margins), it may be worthwhile to source from multiple low-cost suppliers. This should reduce the impact of a disruption at any single supplier because other suppliers might still be producing the same item. * For low-volume products with high demand uncertainty (typically, high margin), the buyer and planner can take a different approach and keep supply chains flexible, with capacity that is centralised.     **Regionalise the supply chain**  Regionalising the supply chain could contain the impact of a disruption and decrease distribution costs.   * Should an unexpected situation in one region disrupt the supply chain, for example, because of a severe storm or political riots, not all regions will be affected. * Since rising fuel prices increase transportation costs, regionalising supply chains provides an opportunity to lower distribution costs while also reducing risks in global supply chains.   Buyers and planners need to respond to supply chain disruption incidents when these do occur, but how they respond will depend on how they have configured the supply chain. Researchers have identified three stages of response: (1) detecting the disruption, (2) designing a solution or selecting a predesigned solution and (3) deploying the solution.  The authors argue that, detection, design and deployment become simpler and faster when the supply chain is segmented or regionalised.    **Flexible transportation**  Transportation may pose a high risk for disruption of the supply chain.  Flexibility in transportation may mitigate the risk.  Christopher Tang suggests that three approaches could be considered:lvi   * **Multi-modal transportation***.* To prevent the supply chain operations from coming to a halt when disruptions occur in the ocean, in the air, on the road, etc., a flexible logistics strategy that relies on multiple modes of transportation may be adopted. * **Multi-carrier transportation** can be implemented to ensure continuous flow of materials in the case of political disruptions (labour strikes, political riots, etc.). * **Multiple routes.** To avoid a complete shutdown with a breakdown on one route (for example, as a result of destructed road, riots, road congestion) considering using alternative routes may ensure smooth material and product flows along the supply chains.   **Safety stock**  Calculating and having “safety stock” available to cover short disruptions or delays in the supply chain is another measure that can be taken to mitigate risk. However, it can be costly to keep safety stock at all stores. Christopher suggests that, instead of carrying large quantities of safety stock, a retail chain may consider storing some inventories at certain strategic locations - such as warehouse, logistics hubs or distribution centres) - to be shared by multiple chain stores. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 19 | KM01KT04 IAC0401 | List typical methods used to gather information on supplier performance. List the advantages and disadvantages of each. | 20 |

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| |  |  |  | | --- | --- | --- | | **Method** | **Challenges/Disadvantages** | **Advantages** | | Paper questionnaires | * Hard to construct sound information gathering instruments * Require knowledge of what to measure * Difficult to deploy * Suppliers procrastinate filling out questionnaires | * If completed, the results of a questionnaire are usually easy to interpret. | | Web based questionnaires | * Require resources to develop * Compliance issues | * Anonymity is usually an advantage | | Extract from current systems | * Data integrity * Require cleansing, massaging and formatting * Data integrity disputes with suppliers | * Information already available in the buying company’s system | | Site visits | * Resource intensive for both customer and supplier * Requires trained personnel * Can be inconsistent | * Direct observation can be the basis for the evaluation | | Certification to third-party standards | * Conformance to procedures does not guarantee best practice deployment * Can move the focus away from performance to documentation of procedures * Not specific to performance, processes and practices required by the customer | * Work is done by a third, independent party. | |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 20 | KM01KT04 IAC0402 | List generally accepted operational standards required of suppliers in terms of:   * Service delivery * Merchandise quality * Order fulfilment * Lead times | 8 |

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| * **Service delivery**: On-time delivery of the right products in the right quantities at the right quality and the right price * **Lead times**: As short as possible and no longer than agreed. * **Order fulfilment**: Correct products in correct quantities at agreed time * **Quality:** Number of customer complaints limited; quality as per specification or agreement |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 21 | KM01KT04 IAC0403 | Explain how the company’s target market could impact on operational standards of the supplier | 5 |

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| Learners may provide relevant answers which the assessor should consider.  Examples include:  Consumers have become more aware of the impact of industry on, for example, the environment.  There has also been an increase in attention on how suppliers treat their employees in terms of human rights.  Stakeholder pressure on environmental and social standards, expectations with regard to sustainably in managing companies and their supply chains are gaining significant momentum. Therefore, the interests of a retail chain’s target market may have an impact on the performance standards of the company’s suppliers. Certain groups of consumers may, for example, stop buying certain products should they become aware that a retail chain’s suppliers violate human rights or sustainable manufacturing practices during the manufacture or distribution of the products.  Due to stakeholder pressures, buyers should take cognisance of the interests of their target market and select merchandise assortments and suppliers aligned to these interests. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 22 | KM01KT04 IAC0404 | List typical corrective measures for suppliers not meeting requirements. | 15 |

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| **Collaborate with suppliers in finding a solution.**  Advantage: Win-win situation for both  **Change suppliers**   |  |  | | --- | --- | | **Advantages** | **Disadvantages** | | * If the new supplier can consistently meet the agreed standards, the problem is resolved and that can have a positive impact on sales and profitability. | * It is time consuming and expensive to source and evaluate potential new suppliers. * Only time will teach whether the new supplier was a better match for company needs. * Alternative suppliers who can supply the required products might not be available. |   **Segment suppliers**   |  |  | | --- | --- | | **Advantages** | **Disadvantages** | | * Segmenting of suppliers may lead to lower merchandise costs for efficiency” model products. * Reliance on one supplier is reduced, and this could limit risk. | * Because of lower quantities, the buyer may lose exclusivity of product supply, price negotiation leverage and influence on the suppliers. |   **Regionalise suppliers**   |  |  | | --- | --- | | **Advantages** | **Disadvantages** | | * Regionalisation of suppliers may have the benefit of shorter lead times, making it easier to manage stock and prevent stockouts or excess stock. * Because of proximity, it might be easier to build personal relationships with suppliers. | * Regionalisation may limit the available merchandise assortment. | |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 23 | KM01KT05 IAC0501 | List financial reports used to measure merchandise performance and explain how each is used. | 10 |

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| **Classified income statement**  The classified income statement shows important relationships that help in analysing how well the company is performing. For example, by deducting cost of goods sold from operating revenues, it can be determined by what amount sales revenues exceed the cost of items being sold. If this margin, called gross margin, is lower than desired, a company may need to increase its selling prices and/or decrease its cost of goods sold.  **Inventory on hand**  The inventory on hand report shows how many product units are in each store as well as the current stock value. That information tells the user of the report how much capital is tied in on inventory, which in turn can help with financial plans and forecasts.  **Sales summary report**  The sales summary report provides an overview of sales for a given time period. This report typically also shows cost of goods sold, gross profit, margins, and tax.  The report provides is used to get a macro view of retail sales, for example:   * Sales for the month, quarter or year * Year-to-date sales * Sales compared to last month, quarter or year   **Product performance report**  This report shows how much merchandise was sold over a given time period as well as a summary of items sold per month or per week.  The product performance report is used to determine which items are worth investing in and which ones should not be re-ordered.  **Sales report per product and product type**  This report ***per product*** makes it easy to identify best and worst selling products, so the buyer/planner can determine the right course of action. If a particular product is selling well, for example, the buyer/planner could consider ordering more of it. On the flip side, if a product is not performing well, then the buyer/planner would want to know sooner rather than later so they can run promotions before the season ends.  Sales ***per product type*** helps the buyer/planner get a handle on revenue from a category level. This is a great report to run to identify broader trends or insights.  Example: If a footwear retail chain notices that a particular brand or style of shoes is quickly gaining in popularity, or that certain shoe sizes sell more quickly, these insights can be used to amend stock ordering and marketing decisions for the rest of the season. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 24 | KM01KT05 IAC0502 | List ratios used to measure merchandise performance and explain how each is used. | 25 |

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| **ABC analysis**  ABC analysis rank orders merchandise by performance measure to determine:   * which SKUs should be in the merchandise plan; * which items should never be out of stock; * which items should occasionally be allowed to be out of stock; * which items should be deleted from the stock selection; and * how much backup (safety) stock is required.   This is done by rank ordering the SKSs into categories A, B and C, through performance measures such as sales, gross margin and GMROI (Gross margin return on investment).  The first step in the ABC analysis is to rank order SKU’s using one or more criteria.  With this inventory classification, the total inventory is classified into three categories:   |  |  | | --- | --- | | A | This category represents the most valuable products. They are the products in this category contribute heavily to the company’s overall profit.  This category will be the smallest category but include the biggest money makers. These products are, however, crucial for inventory control, order scheduling, safety stock, prompt delivery, stock balance and refill demands. | | B | Category B represents the middle-of-the road products.  This category is all about potential. The products in Category B can usually be developed into category A items. | | C | Category C products are relatively unimportant in terms of critical stock control.  Products in this category make up thousands of tiny transactions that are essential for profit, but the products do not individually contribute much value to the company.  It is also the category where automated replenishment systems should be used. |   **GMROI**  The gross margin return on investment (GMROI) is an inventory profitability evaluation ratio that analyses a company’s ability to turn inventory into cash above the cost of the inventory.  The GMROI calculation assists buyers and planners in evaluating whether a sufficient gross margin is being earned by the products purchased compared to the investment in inventory required to generate those gross margin dollars.  The formula for the GMROI is  **Sell-through analysis**  With sell through analysis, the actual sales and forecast sales are compared and the difference is analysed to determine whether to apply markdown or to place a fresh request for additional merchandise to satisfy current demand.  Tracking via sell-through is a traditional measure that is used by most fashion retailers and fashion brands. It is how the fast fashion retailers interpret, and respond to this metric, across their value chain, that creates value for the brand, business and consumers.  **Multiple-attribute**  Retailers and buyers use this method to evaluate the performance of merchandise and suppliers.  This method is used to analyse the various alternatives available with regard to vendors and select one that best satisfies store needs. This method is based on the concept that customers look a retailer or a product as a collection of features and attributes.  The steps for calculating multiple attribute are:   1. Develop a list of issues to consider for decision making, like supplier reputation, service merchandise quality, selling history etc. 2. Give importance weights to each attribute. 3. Make judgments about each individuals brand’s performance on each issue. 4. Combine the importance and performance scores. 5. Add all to arrive at the brand scores. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 25 | KM01KT05 IAC0503 | Describe typical measures used to evaluate buying and planning activities | 10 |

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| **Range reviews**  Range reviews are regularly conducted to remain competitive. Retailers continually have to monitor and assess their product ranges in line with their customer’s needs.  Range reviews are based on thorough data analysis. The goal is to use the data to spot opportunities to improve the category.  **Evaluation of allocation**   * Sell-through analysis. Sell-through analysis measures the quantity of inventory that is sold within a given period, relative to the quantity of inventory received within the same period.   It is among the most important key performance indicators in inventory management.  The buyer can segment sell-through rate analysis by product to see which products are selling well and which products are selling poorly. This information can then be used to improve allocations and reduce the risk of carrying slow moving product.  The formula for sell-through analysis is as follows:   * **ABC analysis.** It can be used to allocate product ranges and determine the top 20% of products that contribute around 80% of sales.   It can also be used to evaluate and product ranges (categories) in terms of performance and then to compare the actual performance against the initial product range plans.  It is often practice in retail to remove the last 20% from future product range allocations, unless the products play a specific role such as convenience to the customer who could be lost to the competition of the store does not sell these products. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 26 | KM01KT05 IAC0504 | Describe possible activities for merchandise not selling and the impact of each on the business. | 25 |

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| Short-term:   |  |  | | --- | --- | | **Sale** | **Sales help move overstock and dead stock, but they must be planned and used with caution. Sales should not be offered so regularly that customers become used to the sales and put off buying, in anticipation of the “good deals” they will get on the next sale.**  **There are different types of sale:**  **Flash sale.** Flash sales are often offered with heavier discounts (typically 50-70% off) and last for a limited time. Though the prices are discounted enough that some items may be selling at a loss, it is still better than keeping dead stock on the store’s shelves.  **Clearance section.** The store may either have a permanent clearance section in an effort to attract bargain shoppers or create one seasonally to feature overstocked inventory. This slow-moving stock typically consists of items that have been in the store for at least 3 months.  **Seasonal sale.** For retailers that order different stock seasonally, seasonal sales can be a great way to rid excess products. Consumers have learned to anticipate great seasonal discounts.  **Product specific sale.** Storewide sales can be dangerous if not managed perfectly. A larger than expected turnover can result in losses bigger than anticipated and take months to recover from. For this reason, sales of only a limited number of products may be wise. | | **Pricing strategies** | **Overstock pricing strategies can be applied in the following ways:**  **Bundle products.** Pairing a best-seller with one of the poorly moving products is a great way to move the slower-moving stock. Make the pair cheaper than the two would have been individually but price it so that there will still be a profit. Consider also pairing a high-margin item with a low-margin one. Bundled deals are fun for customers.  **Complementary items.** Take advantage of shelving strategies and product placement. Situate slow-moving products next to top-sellers, especially if they are related products. It might remind someone to buy something they forgot they needed.  **Buy one get one.** “Buy one get one” deals are hard to say no to, even if customers so not really want the product. Grouping several units of the same slow-moving product together can get inventory moving quickly. | | **Remerchandise** | **An effective strategy is to remerchandise and position products differently. It is quite often as simple as repositioning stock or merchandising the overstock or dead stock items at “hot spots” (high traffic areas).**  **In addition to changing position, the signage can be used to draw attention. Use nice displays and bright signage.** | | **Incentives** | **Use overstock items as incentives. Offer free products as rewards for signing up to loyalty programmes or set benchmark sales, for example, buy for Rx and get a free …** |   **Long-term:**  To prevent overstock and dead stock, the chain store manager should understand customer demand.  The chain store manager can get insight into demand by studying sales trends at the store. For stock that is replenished regularly, it is best practice to consider sales figures for six months.  Historical sales data can help predict what will sell during specific times of the year. It is especially helpful to plan for seasonal sales. For example, if sales of chocolate products over the previous Easter time were 20% higher than the average monthly sales, it is a good indication of how much more stock to buy for this Easter.  Demand forecast methods help with planning replenishment in a manner that will ensure sufficient stock without overstocking. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 27 | KM01KT05 IAC0505 | Describe possible activities for solving shortfalls in merchandise levels and the impact each will have on the business. | 20 |

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| **Short-term actions** **Re-allocation and/or re-direction of stock** Stock can be re-allocated or re-directed from stores or areas where there is more than enough to other stores or areas where stockouts occur due to disruption in the supply chain.  Inventory may be deployed to stores or regions with the biggest product-availability deficits **Subtly suggest alternatives** Assortment planning and positioning on shelves or display areas influence what customers buy.  Research has shown that that a store can utilise assortment planning to entice customers to purchase products that are widely available when certain products are facing supply disruptions. A store manager could manipulate customers’ product choice and customers’ demand by reconfiguring the set of products on display, the location of each product on the shelves and the number of facings for each product. **Liaise with supplier** In some cases, especially if the supplier is regionally located, it might be possible to request special arrangements to alleviate the shortage of stock. **Long-term actions****Source alternative suppliers** If the shortfall is caused by continuous underperformance of the supplier, one option is to source alternative suppliers who follow an efficient supply chain model to substitute products where it is feasible.  The buyer/planner should secure fast supply, even it if requires reduction in the number of stock-keeping units (SKUs). **Review forecasting methods and safety stock levels** A review of forecasting methods should be considered if the cause of understock seems to be vested in the manner in which demand forecasting is done or inadequate safety stock levels. **Search for ways in which to reduce lead time** Where possible, solutions should be found to shorten lead time.   |  |  | | --- | --- | | **Inventory planning** | Inventory planning as part of stock control is important. Running out of high-demand items leads to lost sales and lost customers.  In an ideal stock control situation, new inventory should come in at the same time old inventory is depleted. There should be no soldouts and no overstocking.  Accomplishing this requires accurate, up-to-date data on stock on hand, stock on order and stock that is being shipped. | | **Effective order cycles and replenishment** | To avoid either an overstock situation or soldouts stock control systems must include effective order cycles and methods for replenishment.  Replenishment methods must ensure ordering enough stock to meet demand without exceeding predicted turnover. | |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 28 | KM01KT05 IAC0506 | Describe possible activities for improving merchandise performance | 20 |

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| **TRAFFIC BUULDING**  The aim of the traffic building strategy is to draw customers’ attention into the stores then to the aisle, and into a category. This strategy is typically is used for products that are price sensitive and are frequently purchased.  Traffic building products or categories are usually displayed at eye-level, which is deemed prime position because it generates the most sales.  **TRANSACTION BUILDING**  The transaction building strategy focuses on increasing the size of the average category transaction, by encouraging consumers to purchase complementary products.  Transaction building strategies also include the display of items to encourage impulse purchases, and using promotions to encourage up-trading, for example, 3 for the price of 2.  **PROFIT GENERATING**  When identifying profit generating categories, buyers/planners need to consider three factors:   * Higher selling price * Higher gross profit % (margin) and * Categories that have a high GP% and a high stock turn.   Accessories that compliment a product are generally profit generating categories.  The consumer’s exposure to higher margin items can be increased by merchandising these categories in high traffic areas.  **EXCITEMENT GENERATING**  Excitement generating strategies essentially focus on offering fashionable and innovative products or promotions.  This strategy is used to create excitement for a particular category by communicating a sense of urgency or opportunity to the consumer.  **RECONSIDER CATEGORY ROLES**  Part of category management is to assign a role for each category.  A category role defines the role the retailer wants the category to play within the stores. 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. |