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| **MODEL ANSWERS – KNOWLEDGE TEST** | |
| Qualification | 332301 Retail buyer |
| Knowledge module | KM04 Allocating stock to stores |

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| Total possible marks | 90 | Minimum marks required | 48 (80%) |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 1 | KM04KT01 IAC0101 | Discuss the factors impacting on the range and quantities allocated to stores | 25 |

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| ***Customer decision trees and behaviour:***  In different locations, customers have different decision trees, that is, they make buying decisions in different ways, based on their priorities.  For example, in one location where customers are price sensitive, the majority of customers may look at price first, then flavour, then size and brand last.  In another location where customers are not price sensitive, environmental issues may be more important and may be a higher priority for the customer base than price is. Customers may first consider the impact of specific products and their packaging on the environment before deciding which products to buy.  It is important to know the customers (target market), because different types of customers use different decision trees to select products. The figure below provides examples of customer considerations when buying cold drink items, based on factors such as:   * price (premium, mainstream, economic); * consumer - who will use the products (the customer, family, children, etc.); * occasion (e.g. food on-the go; food for school lunch box; work lunch box, etc.) and so on; * packaging (size; UOM; re-sealable; etc.) and finally * the product (carbonated/non-carbonated; flavour; normal/sugar-free; cold/ambient).   Consumer behaviours differ based on cultural, personal, physiological ad social factors within a customer base. For each of these segments of a customer base, the focus of product selection and priority factors are different. For example, for customers who are price sensitive, price will be a priority when considering product selection. Some customers may be highly influenced by visual factors, so for them packaging and brand may be key factors in product selection. Yet another group of customers may consider functionality as key factor for deciding which product to buy.  ***Store size***  Size of the store impacts on capacity – how much stock can be accommodated. This will impact on how the buyer selects the number of products within categories (category width).  Quantities required are also impacted by the size of the store. The buyer does not want to allocate more goods than a store size can handle. Store size determines how much capacity the store has and therefore the quantities of stock that can be allocated at a time.  A store with larger floor space will probably need to stock a wider and deeper selection of products to cater for the needs and expectations f a larger number of customers visiting the store. Generally, consumers expect a larger store to have a much larger and more exciting selection of products to choose from.  Naturally, the physical characteristics of merchandise are also considered when allocating stock. For example, furniture stores of smaller size will in most cases not carry large lounge suites, or if they do, there will be a limited selection.  One of the first questions to answer when considering product range for a particular store is, therefore, whether store capacity will fit all the assortment options.  ***Sales***  Most retailers classify stores as A, B or C based on their size and annual sales.  A type stores carry the maximum product range and quantities since they are larger and contribute the largest sales volume.  C type stores are allocated only a basic product range and smaller quantities.  ***Demographic characteristics***  The allocation of merchandise is different for different stores. It depends on the profiles of consumers frequenting the store – their preferences, size rations, colour requirements, etc.  Buyers, therefore, consider the physical characteristics of the merchandise and the depth of assortment and level of product availability that the company wants to portray for a specific store.  The geo-demographic characteristics of a store’s location are considered when making decisions about allocation. For example, stores in rural areas will have different geo-demographics than stores in urban areas.  Demographic characteristics of the target market and the local customer base such as employment status, age and lifestyle have an impact on customers’ buying decisions.  **Lifestyle**  Lifestyle of the customers of certain stores may impact on assortments for clothing and food. For example, an analysis of the cereal category at some stores with an upmarket customer base might reveal that in those stores there is a significantly higher percentage of sales for the healthy breakfast cereal assortment than for sugary breakfast cereals.  **Age groups**  Different age groups have different needs and preferences in terms of types of products. In locations where the customer base is mainly young families, assortments for food items, clothing, etc. will need to be different from those for locations where the customer bases consists mainly of mature families.  **Employment status**  Employment status may impact on m ore aspects than price of the product range. It may also impact on aspects such as style of clothing, e.g. office wear or more casual wear.  In addition to considering the demographics of the stores’ locations, the buyer that allocates stock should also consider trends and how the target markets in different locations respond to trends. In an article on assortment planning, the following example is given.  Such a mix in allocation would apply to stores in locations where the customers are keen to follow fashion trends. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 2 | KM04KT01 IAC0102 | Explain the difference between the allocation and replenishment | 5 |

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| Allocation and replenishment are two different approaches to getting the right stock in the right quantities to the right stores at the right time.  ***Planning and allocation***  Merchandise planning involves the process of setting and maintaining goals for sales and inventory.  **Allocation** is the process of assigning individual quantities to specific stores based on performance analysis. It works on the basis of assessing how many units are likely to be sold over a given period and hence an overall allocation of goods is determined.  The objectives of allocation systems are to:   * Minimise time required to allocate merchandise; and * Maximise profit by reducing costs and aligning product placement within a store with the opportunity to sell the merchandise.     ***Replenishment***  Replenishment involves acquiring product on a **recurring basis** to support anticipated need at a store.  It works on the basis of re-ordering the same goods as stock levels reduce. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 3 | KM04KT01 IAC0103 | Discuss the methodologies used in industry for allocating ranges to stores | 4 |

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| the buyer may use the ABC classification to categorise stores based on floor space and sales contribution.  **Class A**  Class A stores are those that have the highest sales figures (and are typically the largest in size).  Typically, Class A includes the top 20% of stores.  Class A should carry the full product range and it is crucial that these stores receive sufficient merchandise so that they never experience stockouts of merchandise, especially staple products.  Therefore, there should ideally be short lead times in supplying these stores and their sales should be monitored continuously to observe any changes in demand for merchandise so that quick response can be initiated.  **Class B**  Class B stores have lower sales than stores in Class A.  Class B typically makes up 50% of the stores, after Class A.  They are important to monitor very closely for replenishment but do not require the same level of attention and control as Class A.  **Class C**  Class C stores are typically the lowest 30% of the stores, both in terms of size and sales. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 4 | KM04KT01 IAC0104 | Discuss the advantages and disadvantages of store and Head Office replenishment | 8 |

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| Use the following as guidelines. The assessor should accept other appropriate responses.  ***Head Office replenishment***   |  |  | | --- | --- | | Advantages | Disadvantages | | Centralised information and placing of orders – reduced confusion  Can be automised | Not necessarily when stock needed  Unexpected higher sales may lead to stock not being available because Head office replenishment often takes place at fixed time periods  Might be inflexible and not responding quickly enough to changes in demand at store level |   ***Replenishment at store level***   |  |  | | --- | --- | | Advantages | Disadvantages | | Allows for quick response to changes in demand  The manager is in charge of what is replenished | Managers may overbuy because they place regular orders of fixed quantities | |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 5 | KM04KT02 IAC0201 | Describe the factors impacting on the allocation of stock to stores out of South Africa | 8 |

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| * **Suitable attire acceptable to local culture** in the country to where the stock is allocated. Certain types or styles of clothing might be offensive in certain countries. * **Climate and weather**. Climate and weather in another country might differ from the climate and weather in south Africa, and that may impact on the types of products allocated to stores outside South Africa. * **Documentation required for trans-border transportation**. Border control of imports and goods transported out of South Africa into another country will need specific documentation both for the export and the import. The buyer should ensure that all documentation meets the requirements of both countries. * **Legislation including import legislation, environmental management legislation**. Legislation of the other should be taken into consideration before allocating products to stores outside South Africa. There might be restrictions on, for example, imports of certain types of food products. For other products, special import permits may be required. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 6 | KM04KT02 IAC0202 | Discuss the impact of data integrity on the allocation of stock to stores | 5 |

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| Data integrity within software systems is essential to ensure the accuracy and usefulness of the results.  Inaccurate data, outdated data and/or missing data can cause inaccurate results that will impact the outputs generated by these processes. Errors and inaccuracies may have a huge impact on effective allocation of stock to stores. Possible consequences include:   * Inadequate quantities of stock allocated to stores result in stockouts and loss of selling opportunities. * Too much stock allocated to stores result in markdowns, which have a negative impact on potential profit. * Incorrect product ranges allocated can result in either lost selling opportunities or stock that does not sell and need to be marked down. Both ways, the company loses potential income and profit. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 7 | KM04KT02 IAC0203 | Discuss typical methods used for calculating quantities of promotional stock to stores | 6 |

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| ***ABC classification of stores***  The method that is used most commonly is to classify stores into three or four groups based on size of the stores. (This is where the ABC classification of stores can be used).  Promotional stock is then allocated proportionally to these stores, based on the Pareto principle of prioritisation.   * Class A stores: 80% * Class B stores: 15% * Class C stores: 5%   ***History-based allocation***  Although ABC classification might seem the easiest method to use for allocating promotional stock to stores of different sizes, it lends itself to inaccurate allocation that may result in large markdowns in some stores and loss of sales in other stores.  It is suggested in literature that history of promotional sales per store or class of store for similar products will result in a more accurate forecasting, because such forecasts will be based on consumer buying behaviour per store. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 8 | KM04KT02 IAC0204 | Discuss typical methods used for allocating new merchandise and its quantities to stores | 6 |

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| ***ABC classification of stores***  The method that is used most commonly is to classify stores into three or four groups based on size of the stores. (This is where the ABC classification of stores can be used).  Promotional stock is then allocated proportionally to these stores, based on the Pareto principle of prioritisation.   * Class A stores: 80% * Class B stores: 15% * Class C stores: 5%   ***History of sales of similar merchandise***  Although ABC classification might seem the easiest method to use for allocating promotional stock to stores of different sizes, it lends itself to inaccurate allocation that may result in large markdowns in some stores and loss of sales in other stores.  It is suggested in literature that history of promotional sales per store or class of store for similar products will result in a more accurate forecasting, because such forecasts will be based on consumer buying behaviour per store. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 9 | KM04KT02 IAC0205 | Discuss the impact of seasonal activity on the allocation of stores | 10 |

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| **Seasonal sales** **activities** include any period of the retail fiscal calendar year where a business predictably experiences a surge in customer traffic and sales.  This **seasonality** happens regularly, be it every year, every quarter, or with other predictably repeatable occasions.[[1]](#endnote-1) When thinking about seasonal sales, most people instantly think about the November/December time frame. However, while the end-of-year holiday season certainly is a busy season that should be prioritised, there are other several other situations that contribute to seasonal spikes in sales.  Examples of seasonal events include:   * Back to school * Valentine’s day * Mothers’ day * Fathers’ day * Secretaries’ day * Easter * Hanukkah * Eid * Christmas   During these seasonal events, sales for certain categories of merchandise will experience a spike. Some types of products might only sell well during a specific period while others might not sell well during these times.  Seasonal sales activity impacts on allocation of merchandise. The buyer needs to carefully forecast sales and allocate merchandise according to the forecast.  The following are some of the factors that should be considered when planning and allocating merchandise for seasonal sales:   * **Target market profile.** This will impact on the type of products to allocate. * **Target market needs** in terms of products as well as quantities * **Sales history** for different stores for similar seasons * **Economic forecast** for the country. In some cases, the economic forecast for a location might also impact on seasonal sales, for example, when a large factory in an area closes and thousands of people lose their jobs. * **Overall trends.** Merchantmethods.com suggests that “what was once just Christmas and Black Friday has turned into a whole fiscal quarter of shopping events.” It is recommended that this quarter be broken down by each phase of the holiday season so that the buyer can recognise the different contexts that shoppers are coming from. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 10 | KM04KT03 IAC0301 | Describe typical methods used to record allocations in a computerised environment | 4 |

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| ***Seasonal adjustment of sales figures***  Seasonal adjustment of sales figures, using a spreadsheet:  The basic concept is that for each month, you compute the ratio of that month’s sales to the entire year’s sales. So, for January of the first year, you calculate January sales as fraction of the average sales for the year. This is done for January of every year, then average the results. This gives a good idea of how January typically differs from the average month.  Repeat the exercise for every other month, February through December, giving you results for all 12 months of the year.  Allocation for the season is then calculated based on the factor of the season over the average for the year. |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 11 | KM04KT03 IAC0302 | Describe typical methods used to record allocations in a non-computerised environment | 3 |

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| Allocation software In large retail chains, complicated mathematical algorithms are used for calculating accurate and effective allocations on store as well as product basis.  This is the most effective method for preventing both overstock and understock situations.  Many merchandise allocation software programmes are available, including software provided by:   * JustEnough * RELEX * Logility * JDA Software * Oracle * Mi9Retail |

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| **Question #** | **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **MARKS** |
| 12 | KM04KT03 IAC0303 | Discuss how wholesalers and retailers measure the success of allocations | 6 |

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| In a non-computerised environment, that is, where dedicated allocation software is not available, the buyer will need to generate sales reports from the POS software system and use that information either on a Microsoft Xcel spreadsheet into which relevant formulae is entered, or a paper-based form.  The explanation given under seasonal adjustment of sales through the method of moving average serves as an example.  In such a case, the spreadsheet serves as tool to assist with allocation of quantities and as a record for evaluation of the effectiveness of the allocation – columns can be added to the sprreadsheet to record:   * Quantities of a product allocated per store, then summed for the retail chain as a whole * Actual sales per store, then summed for the retail chain as a whole * Calculation of the success of the allocation by solving the the sales as a percentage of the allocation that was made. For example, if the allocation of SKU108 was 6,000 and sales were 4,500, then the allocation success was |

1. [↑](#endnote-ref-1)