CD2024 633EC RETAIL E CHANNEL MANAGEMENT

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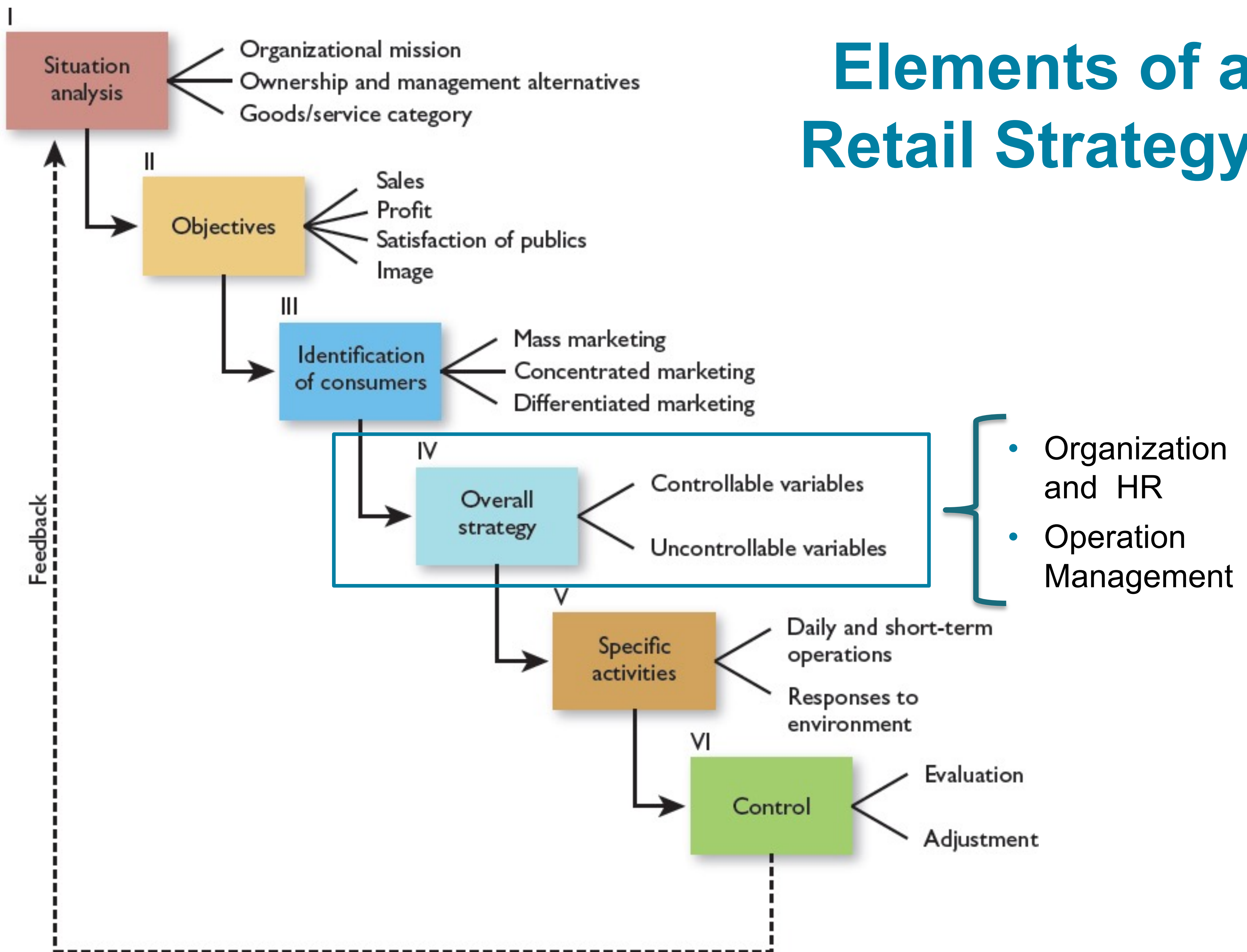
Elements of a Retail Strategy
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Situation analysis
Organizational mission
Ownership and management alternatives
Goods/service category
II
Objectives
Sales
Profit
Satisfaction of publics
Image
III
Identification of consumers
Mass marketing
Concentrated marketing
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IV
Overall strategy
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Specific activities
Daily and short-term operations
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Control
Evaluation
Adjustment
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Retail Management: A Strategic Approach

Thirteenth Edition, Global Edition

Retail Management

A Strategic Approach

THIRTEENTH EDITION

Barry Berman • Joel R. Evans • Patrali Chatterjee

Chapter 12

Operations Management: Financial Dimensions

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Operations Management

- Operations management involves the efficient and effective **implementation of the policies and tasks necessary to satisfy the firm's customers, employees, and management** (and stockholders, if a public company).
- This has a major impact on both sales and profits.
- **Involves both the income statement and the balance sheet**

Income Statement (Profit Planning)

- **Profit-and-loss (income) statement**
  - Summary of a **retailer's revenues and expenses** over a given period of time
  - Review of **overall and specific revenues and costs** for similar periods and profitability

- Net Sales
- Cost of Goods Sold
- Gross Profit (Margin)
- Operating Expenses
- Taxes
- Net Profit After Taxes

Note:
percentages and absolute values go together!

Balance Sheet (Asset Management)

- The Balance Sheet
  - **Assets**
  - **Liabilities**
  - **Net Worth**
  - **Net Profit Margin**
  - **Asset Turnover**
  - **Return on Assets**
  - **Financial Leverage**

The Strategic Profit Model (balance sheet and income statement)

Net profit margin × Asset turnover × Financial leverage = Return on net worth

$$\frac{\text{Net profit}}{\text{Net sales}} \times \frac{\text{Net sales}}{\text{Total assets}} \times \frac{\text{Total assets}}{\text{Net worth}} = \frac{\text{Net profit}}{\text{Net worth}}$$

Increasing Profit Margins

Net profit margin

$$\frac{\text{Net profit}}{\text{Net sales}}$$

- **Increase sales** of private label brands (*i.e.*, brands that retailer owns)
- Centralize buying to **increase bargaining power**
- **Reduce SKUs** in each category to increase bargaining power (SKU = Stock Keeping Unit)
- **Reduce operating expenses** via self-service operations, and through "buy online, pick up in-store" (*i.e., click and collect*) to reduce delivery costs
- **Increase Web sales**
- **Reduce labor expenses** through increased use of part-time help, better scheduling

Increasing Asset Turnover

Asset turnover

$$\frac{\text{Net sales}}{\text{Total assets}}$$

To improve it a firm could:

- **Increase sales from the same asset level**
- **Reduce assets and keep sales stable**

- **24/7 operations**
- Outsource tasks like delivery and credit operations
- **Lease instead of own assets** (virtual corporation owns few assets)
- **Reduce inventory levels** through quick response, through reducing product proliferation, and through drop shipping
- **Utilize second-use locations** to reduce store renovation expenses
- Utilize **inexpensive display techniques** (cut-case display)

Financial leverage

Financial leverage

$$\frac{\text{Total assets}}{\text{Net worth}}$$

Net worth = assets – liabilities

- **A ratio of 1 means NO liabilities**
- The higher the liabilities, the lower the net worth, the higher the financial leverage
- When **the ratio is too high** a retailer may be forced to be focused on short-run sales and cost cutting initiatives to pay interests and debts.
- When **the ratio is too low** a retailer may be overly conservative, limiting its ability to invest (renovate/expanding stores, opening new stores…)

Other Key Business Ratios

- **Quick ratio**—cash plus accounts receivable divided by total current liabilities (due within one year).
  A ratio above 1 to 1 means the firm is liquid and can cover short-term debt.
- **Current ratio**—total current assets (including inventory) divided by total current liabilities.
  A ratio above 2 to 1 or more is good.
- **Collection period**—accounts receivable divided by net sales and then multiplied by 365. (Aging accounts receivable).
  A collection period one-third or more over normal terms (such as 40.0 for a store with 30-day credit terms) **means slow-turning receivables**

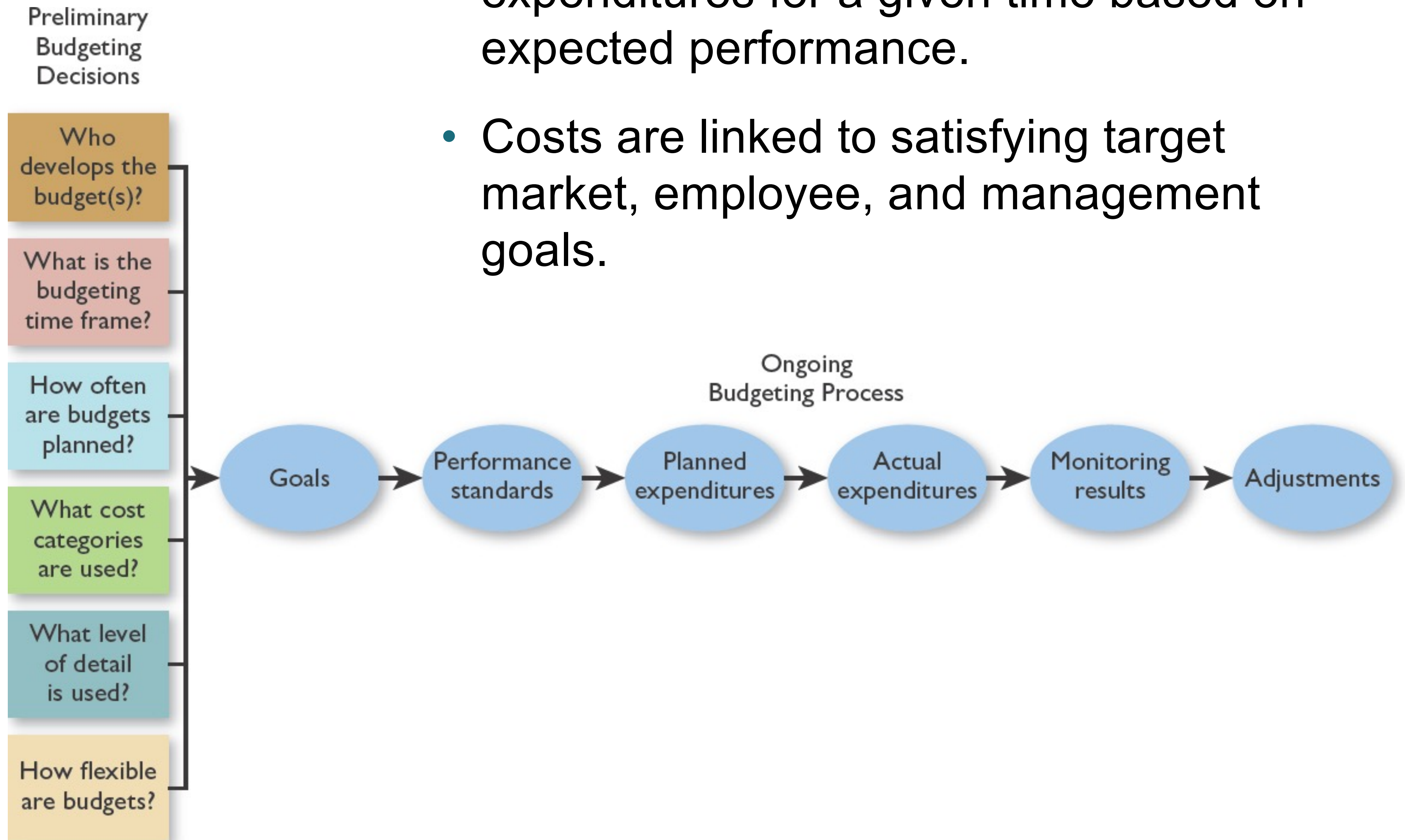
Other Key Business Ratios

- **Accounts payable to net sales**—accounts payable divided by annual net sales.
  This compares how a retailer pays suppliers relative to volume transacted.
  A figure above the industry average indicates that a firm relies on suppliers to finance operations.
- **Overall gross profit**—net sales minus the cost of goods sold and then divided by net sales.

What can be planned? What are the variables on which a retailer has the major control?

Budgeting

- **Budgeting** outlines a retailer's planned expenditures for a given time based on expected performance.
- Costs are linked to satisfying target market, employee, and management goals.



Benefits of Budgeting

- **Expenditures** are **related to** expected **performance**.
- **Costs can be adjusted** as goals are revised.
- **Resources** are **allocated** to the right areas.
- Spending is coordinated.
- Planning is structured and integrated.
- **Cost standards are set**.
- **Expenditures are monitored** during a budget cycle.
- **Planned versus actual budgets** can be compared.
- Costs/performance can be **compared with industry averages.**

Preliminary Budgeting Decisions

Preliminary Budgeting Decisions

- Who develops the budget(s)? → 1. Specify budgeting authority
- What is the budgeting time frame? → 2. Define time frame
- How often are budgets planned? → 3. Determine budgeting frequency
- What cost categories are used? → 4. Establish cost categories
- What level of detail is used? → 5. Set level of detail
- How flexible are budgets? → 6. Prescribe budget flexibility

Cost Classifications

- **Capital expenditures**—long term investments (can be leased, often depreciated
- **Fixed costs**– constant over range of sales
- **Direct costs**—can be traced to departments, stores, products
- **Natural account expenses**—classified by name such as salaries
- **Operating expenses**—short run expenses
- **Variable costs-based on sales levels**
- **Indirect expenses**-shared by multipledepartments
- **Functional account expenses**-classified by purpose or activity, such as cashiers, customer service personnel;

Bad Costs

Bad costs are costs incurred for customer services that:

- Customers do not value (will pay not additional prices for)
- Are not required by customers

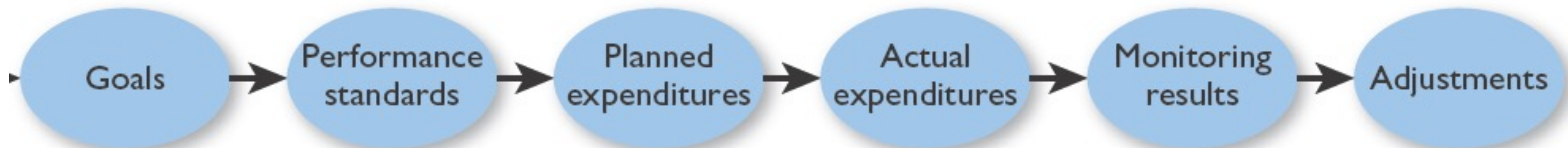
Cause	Example
Over-centralizing stores operations	Common hours of operation and services regardless of location needs
Reducing all expenses on a proportionate basis	Some services are more highly valued like low waiting lines or custom-made sandwiches
Trading-up to capture more affluent customers	Alienating existing customers and not attracting more affluent ones

Bad Costs

Cause	Example
Not responding to changes in consumer behavior due to technology	Ignoring Web– order on-line and pick up in-store; using catalogs versus Web
Not responding to competition	Not understanding low-cost competition, unbundled pricing opportunities

Ongoing Budgeting Process

- Set goals
- Specify performance standards
- Plan expenditures in terms of performance goals
- Make actual expenditures
- Monitor results
- Adjust budget



Cash Flow

- **Cash flow** relates the amount and timing of revenues received to the amount and timing of expenditures for a specific time.
- In cash flow management, the usual intention is **to make sure revenues are received before expenditures are made**.
- **If cash flow is weak, short-term loans may be needed** or profits may be tied up in inventory and other expenses.
- For seasonal retailers, erratic cash flow may be unavoidable.

Resource Allocation

Capital Expenditures

- Long-term investments in fixed assets

Operating Expenditures

- Short-term selling and administrative costs in running a business