Retail Management
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Lecture-41
Special Merchandising Contexts-1

Hello everybody welcome to this NPTEL swayam course on retail management, this is Professor Swagato Chatterjee from VGSOM, IIT Kharagpur who is taking this course for you. We are in week 8, this is lecture 41 and we will be discussing about special merchandise contexts. So, in these next 2 lectures we will be discussing about different kind of merchandising context and how to deal in those context. And here we will talk about internet exchange and auctions and etcetera, let us start with that.

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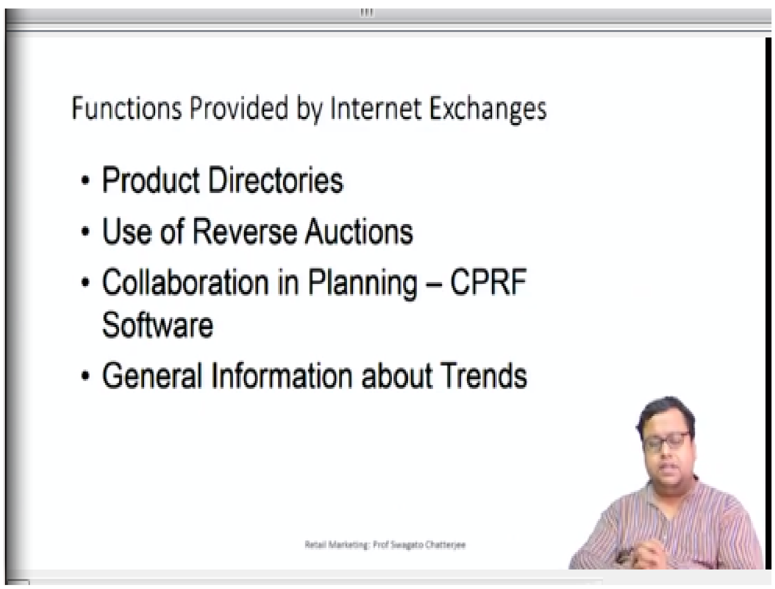

So, first thing that we are talking about is internet exchange. What is internet exchange? There are different functions that internet exchange will do. So, it will give you product directories, it will have the option of reverse auctions, collaboration in planning or CPRF software can be given and general informations and about trends are also provided in internet exchange. From the example of internet exchanges probably in this B2B context is let us say junction if you know.

So, there the scrap materials are traded and sometimes internet exchange can also be this bidding e-procurement that is done or GEM that is done, so these are all examples of internet exchange. So, product directories are there what kind of products can be given. And you can also hold the auction and there will be putting the bidders which are the normal people, normal suppliers will put their bids there and you can buy the products from there.

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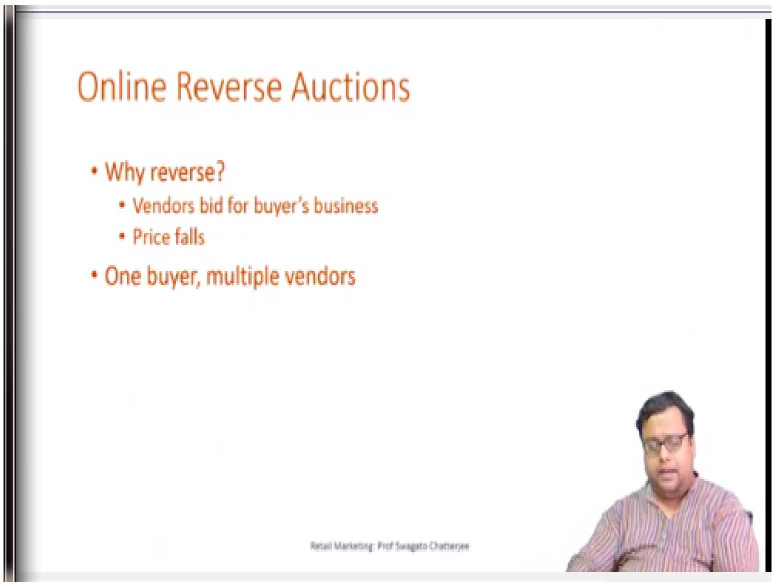

So, what is the reverse auction? In the internet exchange is basically doing online reverse auction. So, what is the reverse auction, why reverse? Because basically win vendors bid for buyers business as price falls when one buyer and another buyer keeps on bidding and each other can see that what other persons is bidding then the price keeps on falling. Because they are trying to get the optimal price which you are trying to come to that optimal price for you will buy and they are also trying to win this particular deal. So, they start quoting lower, price as long as they can and that is how the price falls. So, here there is one buyer and multiple vendors.

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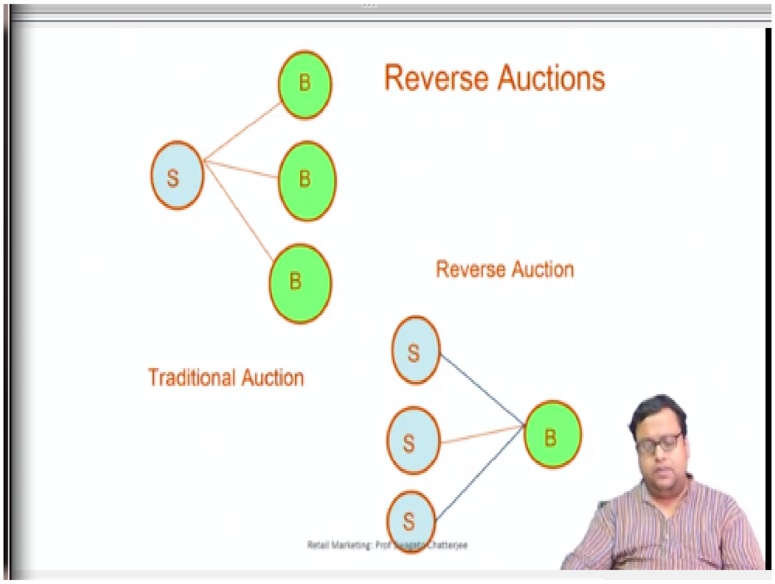

So, in the reverse auction context generally in a normal traditional auction context there is one seller and he puts up a product. And then multiple buyers keep on saying that how much they will be paying for that particular product. But in the reverse auction context is different, the buyers is the what they are interested to buy and what is their estimated cost and the seller's then start putting the price for those services or products that they are willing to sell. So, based on the lowest bid or lowest bid which has certain kind of quality insurance the buyers will buy the product.

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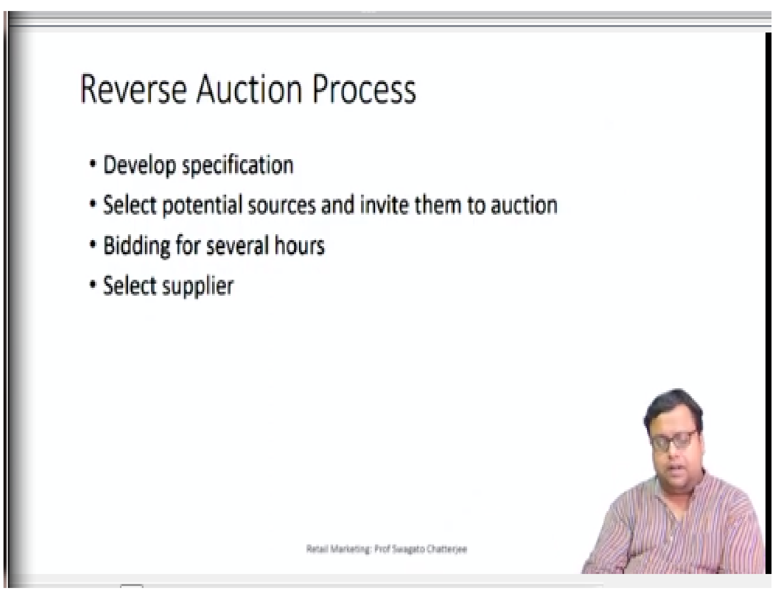

What is the process of reverse auction? So, your first job is to develop the specification. So, the buyer decides that what exactly they will be interested to buy and based on that they will create a document where they will create a specification. Then they select potential sources, means they try to find out who are the suppliers? Who can be potential suppliers they create a list? And then they invite those people to court, so they invite them to auction, then the bidding starts.

And it is an open bidding sometimes, it sometimes is a close bidding but with multiple rounds. So, in the first round the bidders beat some value that ok I will be doing it in this price and then you find out the lowest price, so you put that lowest price and say that second round, we got this lowest price will you be interested to go one more? And you have to please decide how many rounds will be there.

So, because accordingly the sellers will choose that how much they will quote at which level? So, after 3 or 4 rounds you see that all of a sudden the price drops and gets saturated at a particular point, you might probably prefer depending on your level whether you are getting enough quality, enough brand name, enough quality assurance at that particular price based on that you can choose that at what point you will stop.

So, then that is why the bidding happens for several hours, for example let us say the if you remember the 3G, 4G auctions that were happening. There was a reverse auction basically, so all the sellers like for various spectrum people were bidding and that bidding went down for hours and then the lowest price came up or actually that was the highest price came up. And select supplier, you can also select the supplier for whom will be ultimately giving the product based on this after the several hours of bidding.

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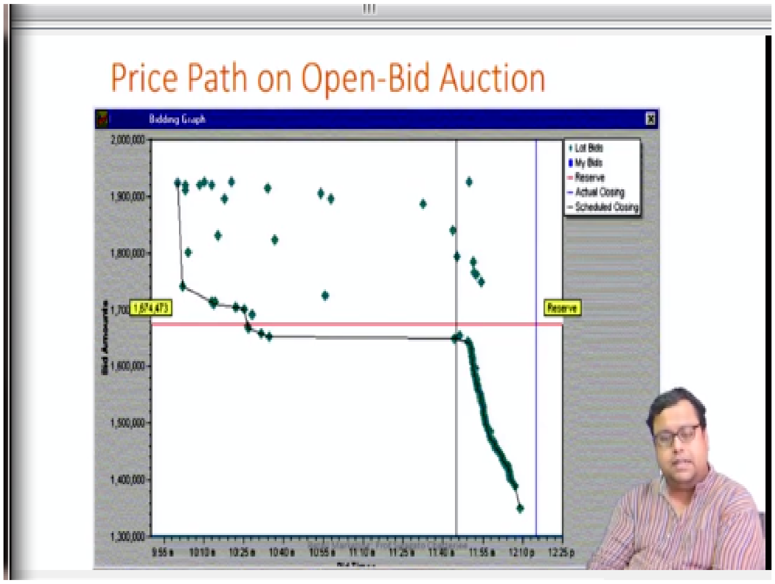

And this is how it comes up. So, you will see that there are lot bids and you put your bid in somewhere and after certain point of time the bids comes down and it is get saturated at a particular point. So, that is the bit that you actually choose and there is a reserve amount, you will always know that ok be above this one I will never go; only I will go below this point. And the actual closing point is much, much lower than that and the schedule closing is somewhere at 1140 let us say in this particular case.

So, wherever the schedule closing point there was actual closing point and the final bid was the lowest bid that you can see at the bottom. So, these are some of the things that you can see in a open bid auction. So, initially the price fluctuates and people you do not get the optimal price but after certain point of time it drop like anything. Because people know that now if I do not reduce any more I will not get the deal. So, then the prices starts coming down and you get a optimal price at that point of time.

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Now that is auction which is pure competition between the sellers. But sometimes you do not want the sellers to compete. Sometimes you let one the suppliers that ok you have my trust. So, when the retailer and vendor committed to maintaining relationship over the long term and investing in mutually beneficial opportunities that is called a strategic relationship or partnership.

So, sometimes when we go with the, why? Because the retailer may be interested to have the right time, priority delivery, good quality, better services, insurance of availability all these things. And sometimes if you go for those auctions kind of thing these are not possible and from is for your business that is very important to have all this stuff. So, that is why sometimes organizations go for strategic relationships.

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So, strategic relationship is a win-win context, I were concerned about expanding the pie not how to divide the pie. So, they are more focused on how to increase the pie but not how to divide the pie because once the friction dividing the pie that this is how it will go. You getting a higher share of a lower pie, let us say the overall revenue is 1 lakh rupees and you get 90% of 1 lakh rupees versus overall revenue is 10 lakh rupees and you get 20% of the 10 lakh rupees.

So, there are differences between that, so even if you get lower percentage as long as the pie is going up that should be focused on. So, if the strategic relationship can ensure that the pie is going up, the overall number of revenue that you are generating is going up oftentimes retailers and vendors go with those kinds of relationship.

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What are the discrete factors and what are the partnering factors? So, in a discrete relationship there is one purchase at a time, it is short-term focuses on price, it is a win-loss kind of a negotiation. So, it is always win for the buyer which is the retailer and loss for the seller and governed by contracts, similar. On the other hand in a partnering kind of relationship you have to anticipate the future, so it is not a onetime purchase.

You generally focused how much you will be required in the long run and you give the order accordingly. It is a long-term relationship, considers all elements, it is not only considered price, it is consider the brand name, it is considers over the ethical issues are there with the supplier or not, whether the services issues will be taken care of, whether the quality costs issues will be taken care of? So, it is a multi-dimensional decision making.

And you go for a win-win collaboration, you not only take care of your own personal interests as a retailer, you should also take care of the supplier's interest, so that this relationship becomes sustainable. And it is governed by trust, trust become very important know, physical contracts or hardcore contracts rather than that personal relationship trust becomes very important in the partnering kind of a relationship.

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What are the building blocks? As I just told the mutual trust, open communication, so it is very important that everybody should be able to talk with each other, there should be certain common goals and there should be certain credible commitment. So, in this context it is probably true in any B2B relationship context, there is a supplier and a buyer relationship. But in a retailer it becomes further more important because retailing activity is heavily dependent on supply, you cannot switch the supplier very quickly, it takes time.

And by the time it is taking time, you are losing the market from some other retailer basically; some other retailer is taking your market. So, that is why having a strong strategic partnership in certain key product. Let us say you have so many SQU'S you break the SQU'S based on which one is more important, which one is less important, which one has to be there in your organization, which one may not be there in your organization in the retail store and in those retail store which are very key products ESQ'S?

You go for strategic relationship for those kinds of ESQ suppliers. You find out which supplier is good in terms of all the things that you are asking for you pay them high and you also ensure that charge your customers higher for that because you are giving value at the end of the day to your customers. So, in those kinds of cases you go for strategic partnerships with your suppliers which is built out of these 4 aspects.

These are more soft aspects; these are not hardcore that performance evaluation kind of aspect that you have to give these or give that, it is more soft aspect. Both of them understand each other problems, both of them understand each other shortcomings and what they can do, what they cannot do, what is the responsibility towards the others and that is how they deal in the relationship?

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Developing trust, it is very important and that is where the capability or competence these 2 things come in. So, competence in salesperson demonstrates confidence when they can show that they know what they are talking about. So, requires knowledge of customer, product, industry and the competition. So, capability or competence of the part of the seller becomes very important in this relationship.

Because I might be giving you a very good product but you do not have the capability to sell, so then how can I trust you that you will actually increase the pie? Because I am going for a strategic relationship as a seller by ensuring that ok, you will be buying from me for a very long period of time and you have the capability to increase the revenue. So, you have to signal that in a negotiation context, in a buying context very specifically, so that the vendors are also interested to have a deal with you.

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What are the stages of building strategic relationship? Awareness, exploration, expansion commitment, so these are the first 4 stages, what is the first is awareness, you should be aware that what you are asking for, what the other person is asking for and what are your strengths and weakness for that the other person strengthen with this then you explore the options, you explore option a, option b, option c, you explore all the options that are possible.

And then you try to find out in which particular area you can expand, will that area you will focus on, where the probability of expansion is high, where you can go for the long-term relationship? Because you know over time, you will have a bigger market in that particular area and then you commit to a particular relationship.

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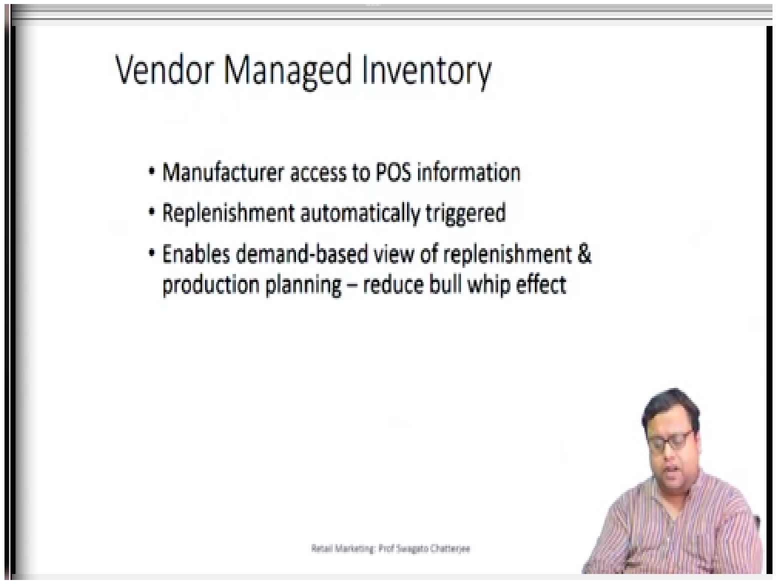

Then comes the vendor managed inventory. So, this is another kind of relationship, so we talked about auctions initially. Auction is absolutely short-term, it is more of a transaction oriented, price focused while strategic relationship is relationship focused. Vendor management inventory is another kind of relationship, where manufacturer access to POS information. So, manufacturer knows exactly the inventory level of the retailer and based on that they send the product.

So, this is very important to reduce the bull whip effect, remember we talked about that once there is some problem in the demand forecasting at the stage of the retailer that problem becomes much bigger in the manufacturer side through wholesaler and distributor. Because at the end of the day the manufacturer will see whatever is the story the wholesaler is telling them and wholesaler will see whatever story the distributor is selling them, the distributor will come it from the retailer and everybody has an error in the information that they have.

So, any error that has come up in the retailer level gets amplified in the distributor, wholesaler and the manufacturer level further bigger size. Now if the manufacturer by chance can cut short all these passage of information and can see the retailer's inventory directly, they can see that how the inventory is going up and going down, they can do a demand forecasting based on that. So, manufacturers access to POS information, replenishment automatically triggered.

So, the moment the inventory levels comes down and they see that there is a small hike in the demand in the POS data point of sales data. They start sending product, enables demand based view of replenishment and product planning reduce bull whip effect as I was telling. So, this is again another relationship but this is possible only when you trust your manufacturer a lot.

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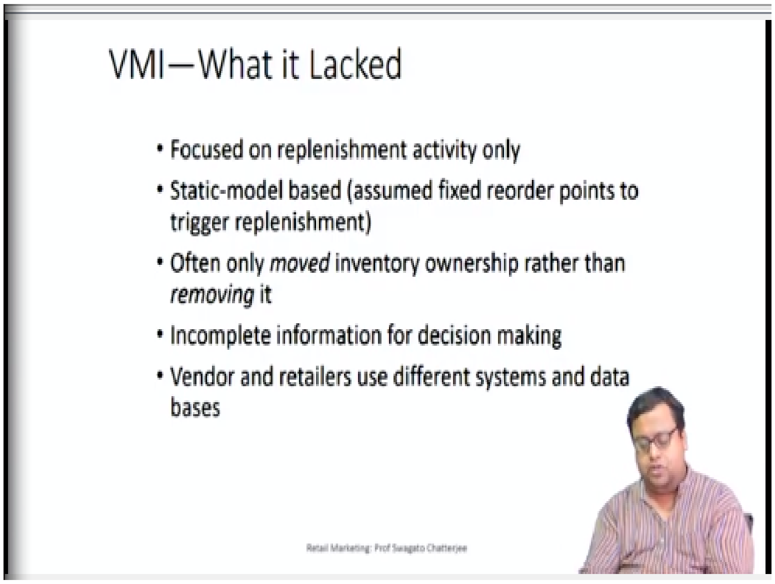

What is lacked in a VMI? Focused on replenishment activity only, so all major focus is how to replenish the product not on any other aspects. It is a static-model based assumed fixed reorder points to trigger replenishment. So, reorder point, so sometimes we decide that at whenever this product inventory is up to a certain point, let us say only 10 products left or only 20 products left then only I will send.

Now you dynamically see that particular whether it has reached that 20 level and based on that you send the product as a manufacturer. But you see there should be periodicity in that point also, not always you should send at 20. Because tomorrow if a huge bulk order comes in from a retailer all of a sudden if the order goes bigger, you cannot wait till this 20 point, you probably should have replenished your products at the late of probably when the inventory level was 200.

So, these demand fluctuations, historical human fluctuations at least should give you an indication that what should be your reorder point and that should also be dynamic. But however as of now it is static in the VMI contexts. Often only moved inventory ownership rather than removing it, so the inventory ownership is generally moved rather than the industry ownership is removed at all, so that is not done. So, retailers still own the inventory the cost of inventory still on the retailer but only the management is moved.

So, that is something is a problem, sometimes retailer might want that will not keep inventory, your job is to bring in as soon as possible. Incomplete information for decision making and vendor and retailers use different systems and databases. So, let us say the vendors see your POS data but the retailer is other data also the sales data, the Nielsen external data certain survey data. So, now the decision of the retailer and the decision of vendor that how much they should have the inventory there can be a conflict in that. And when those conflicts come up that can be an issue in the relationship.

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Then collaborative partner in relationship, so that is the another kind of relationship. The goal is common, a single demand forecast developed collaboratively. So, for example here there are 2 different kind of demand forecasting is happening. In a collaborative partnering the demand forecast is done collaborative with the planning and execution done collaborative way for the demand and for the promotional activities, so everything is collaborative.

A single shared data source is there, improve inventory management across the entire supply chain is ensured, optimized replenishment strategies with joint ownership. So, both have ownership on how much replenishment has to be done. You cannot say that ok, that person is responsible. Process simplicity creates optimal framework for success but up to this level if you to reaching up to this level is very difficult. So, no relationship to VMI one step, VMI to CPFR another step and this step is very big step and sometimes it is very difficult to achieve this level of relationship with the vendor.

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Now in all relationship there can be certain legal and ethical issues also. For example contractual dispute, resale price maintenance, chargebacks, commercial bribery, slotting allowances, buybacks. These are some other special factors counterfeit merchandise, gray market merchandise, exclusive territories. These are some of the specific factors we will discuss in the next lecture about them.

But contractual dispute and retail price maintenance are 2 very basic problems. So, they might each of this party can probably have certain kind of dispute. The quality of the product might not be very good or the payment terms might be violated by the retailer or there can be certain kind of lead time extra lead time is taken, all those can create a contextual dispute. And there can be resale price maintenance, so you do not want to reduce the price below your result price, you have to make sure that any product in a durable context durable retailing context for cars or for fridge and TV this resale price maintenance plays a important role.

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What is commercial bribery? A vendor or is agent offers to give or pay a retail buyer that means the purchase manager something of value it can be money, it can be certain gift to influence purchasing decisions, so that is called basically commercial bribery. So, the purchase manager for his own personal benefit sometimes can allow certain and this is very common in retail store.

So, there is a fine line between the social courtesy of a free lunch and an elaborate free vacation. So, how you decide that how much you will allow your purchase manager to get and how much you will not is very, very difficult to find out. And that is a fine line; there should be very strict policies within the organization for that. Rule of thumb is accepted only limited entertainment or token gifts.

So, only small value items you can fix the value item below that you will take the gift above that there will be no gifts will be taken, so something like that. So, that is where I will stop this particular lecture. In the next lecture there are other options, other kind of issues, ethical issues and which will come up we will discuss about that in the special merchandise context in the second video in the next video and see you then, till we meet in the next video.