PGDM 2014-16

Retail Marketing

DM 534

Trimester – V, End-Term Examination: December 2015

Time allowed: 2 hrs 30 min | Max Marks: 50

Roll No: ___________

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means.** In case of rough work please use answer sheet.

Sections	No. of Questions to attempt	Marks	Marks
A	3 out of 5 (Short Questions)	5 Marks each	3*5 = 15
B	2 out of 3 (Long Questions)	10 Marks each	2*10 = 20
C	Compulsory Case Study	15 Marks	15
		Total Marks	**50**

Section A

Q1. What are the bases of deciding on brick and / or click combination?

Q2. Why is that store dealing in similar merchandise categorize them differently?

Q3. How can a retailer make use of social media to further its objectives?

Q4. How would you enhance the perforamnce of PoP communications in a variety store?

Q5. How would you define a good layout? What are the advantages of a good layout?

Section B

Q6. What constitutes a good loyalty programme? What steps are needed to make it successful?

Q7. A buyer for a women's department needs Rs.120000 worth of merchandise. She has already purchased 200 dresses that costs Rs. 180 each and had decided to retail these for Rs.300 each. What markup percent must she obtain on the remaining purchases in order to average a 54 percent markup for the month?

Q8. How a store would forecast its sales when:

a) It is located on main road in a central business district.
b) It is destination store.
c) It is located on a highway.

Section C

Study the case and answer the three questions at the end. Each question carries equal marks.

Case 16 Lawson Sportswear

"We need to have vendors who can take this burden off of us," said Clifton Morris, Lawson Sportswear inventory manager. "We have had a sales increase of 20 percent over the last two years and my people can't keep up with it anymore."

Keith Lawson, general manager of Lawson Sportswear, reviewed the colorful chart showing the sales trend and replied, "I never thought I would have to complain about a sales increase, but it is obvious that the sales are well beyond our control. Something has to be done, and that is why we are meeting today."

Lawson Sportswear was founded by George Lawson in 1963 in a major southwestern metropolitan area. For five years, Lawson Sportswear has been successful in the sportswear market. In 1995, George Lawson retired, and his son, Keith Lawson, was appointed general manager. From the beginning, Keith Lawson has been a real go-getter. Recently completing his MBA, he has wasted no time in locating new markets for Lawson Sportswear. He immediately contacted two major universities and gained four-year exclusive contracts for apparel purchases made by the sports teams of their athletic departments. Soon after, Lawson Sportswear became popular among students. This growing demand for the company's products motivated Lawson to open two more retail stores. During the fall of 2006, sales had increased beyond expectations. Although the company achieved a successful reputation in the marketplace, sales growth has generated major problems.

In the beginning, operations were fairly smooth, and the company's inventory control department updated most of its procedures. Morris emphasized the crucial role of routinization in the overall inventory maintenance process to keep up with the increasing turnover. The sales increase was 20 percent, not 12 percent, as had been forecast for 2006. It was this increase that initiated a series of problems in the inventory control department. To temporarily alleviate the backlog, Lawson authorized Morris to lease an additional warehouse (see the replenishment level for July 2006 in Exhibit 1). It was decided that a maximum of 16 percent of the total inventory carrying costs were going to be dedicated to the off-premise inventory.

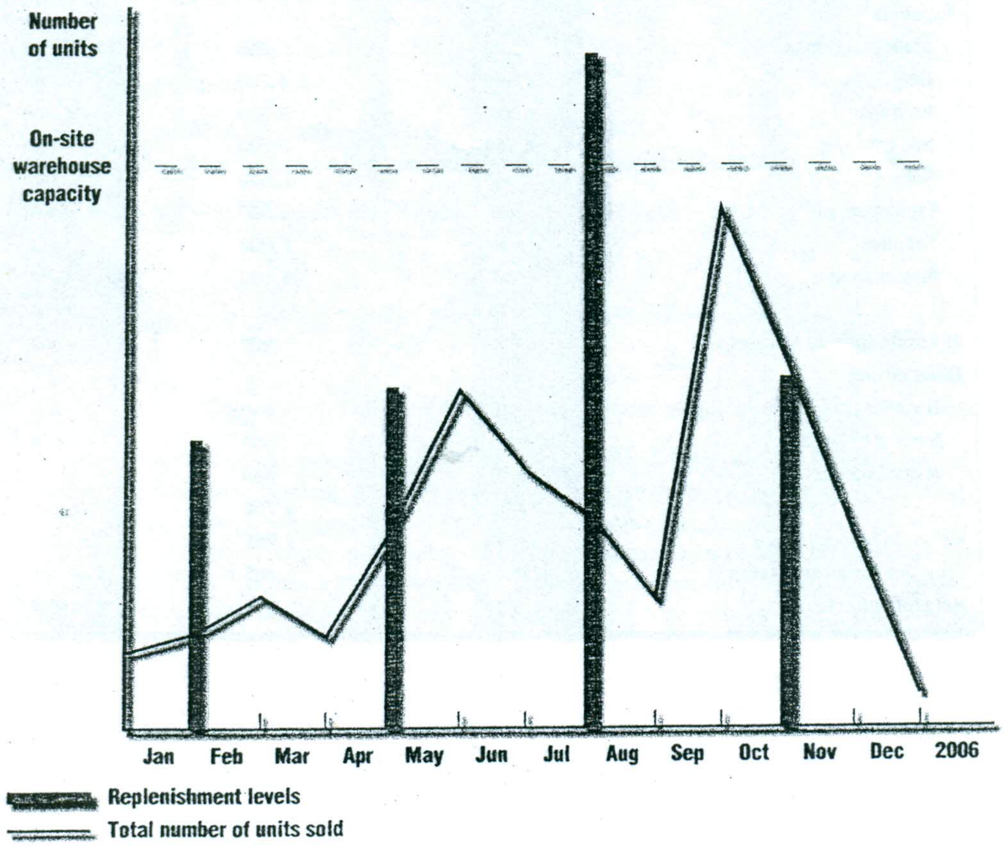

Exhibit 1 *Sales for Lawson Sportswear 2006*

Worrying about not being able to meet demand on time, Morris met with suppliers and asked them to provide more timely delivery schedules to Lawson Sportswear. When he stated that the company was not going to tolerate any reasons for future delays, two major suppliers expressed their concerns about his lack of flexibility and requested price concessions. They simply indicated that Morris's demand had to be supported by providing cash or reducing quantity discounts. Morris ignored these comments and indicated how serious he really was by stating that Lawson Sportswear could always find new suppliers. By the end of a long discussion, arguments were beyond the manageable point, and the two large suppliers decided to quit dealing with the company.

After the meeting, Morris received a memo from Lawson. Lawson was very concerned about the potential reactions of the rest of the vendors. He stated in his memo that since Lawson Sportswear was continuously growing, it was expected to present a more supportive attitude to its suppliers. He expressed his belief that the company needed a cohesive atmosphere with the rest of the channel members, especially its vendors.

During the next six months, Morris had limited success in locating one or more large suppliers that would be able to deliver the products to Lawson Sportswear on a timely basis. Faced with growing demand from the surrounding high schools, he had to accumulate excess stock to avoid possible shortages. At the end of the six-month period, a memo from the accounting department of the company indicated the financial significance of the problem. In his memo, accounting manager Roger Noles simply addressed the high costs of inventory maintenance/security functions (for details, see Exhibit 2). He advised finding a substitute inventory policy to lower these cost figures. Specifically, he stated that the rental cost for the additional warehouse had leveled off at 16 percent, well beyond the maximum.

Exhibit 2 *Comparative Statement of Profit and Loss for Years Ended December 31*

	2007 (forecast)	2006	2005
Net sales	$165,000	$120,000	$100,000
Cost of sales			
Beginning inventory	7,000	6,000	4,000
Purchases (net)	140,000	92,000	62,000
	147,000	98,000	66,000
Ending inventory	9,000	7,000	6,000
	138,000	91,000	61,000
Gross profit	27,000	29,000	39,000
Expenses			
Stock maintenance	7,500	5,250	750
Rent	2,500	1,250	250
Insurance	4,500	3,500	1,500
Interest	4,500	2,500	1,000
Selling	3,500	2,500	2,000
Promotion	7,500	5,500	4,000
Supplies	2,750	1,500	250
Miscellaneous	2,250	1,500	250
	35,000	23,500	10,000
Net profit from operations	(8,000)	5,500	29,000
Other income			
Dividends	925	750	450
Interest	825	600	350
Miscellaneous	650	400	200
	2,400	1,750	1,000
Net profit before taxes	(5,600)	7,250	130,000
Provision for income taxes	1,008	1,305	8,100
Net profit after taxes	(4,592)	5,945	21,900

Keith Lawson immediately scheduled a meeting and asked the top managers to come up with alternative plans to eliminate this problem.

"I should have never let those suppliers quit," said Morris. "It had a negative effect on our image, and now we all see the results."

"It's too late to worry about that," admonished Lawson. "Instead, we have to come up with a strategy to meet the demand effectively without increasing our costs to the detriment of profits. You realize that the university contracts will expire at the end of the year."

"That's the crucial fact," said Noles. "We simply cannot afford to stock up beyond the current level; it is just too expensive. It is well beyond the funds we have had even from the increased sales."

"In other words, the elimination of the excess inventory is necessary. Who are the vendors that we have at the moment?" asked Lawson.

"There are only three suppliers remaining after the last meeting," replied Morris. "They are fairly small businesses, but we've been dealing with them for quite some time. They have been successful in keeping up with us, and the details of their operations are summarized in their report."

"It seems like we have a good selection here," said Lawson, after looking at the report in front of him. "If they mostly work with us, we should be able to influence the future direction in their operations. In other words, it should not be difficult to convince them that they need to upgrade their deliveries in such a way that we can eliminate our excess inventory."

"That would cut down the rental costs that we incur from the additional warehouse," said Noles.

"Obviously!" Lawson replied impatiently. "We will probably need to provide those vendors with a comprehensive support program. If we can convert the floor space of the warehouse from storage to sales, we will have additional funds in retail operations. We can invest a portion of these funds in supporting our vendors and improve our image by forming a cohesive network with them. Of course, there will be a limit to this support. After all, it will be expensive for us to make the transition, too. Therefore, I would like you to come up with an analysis of converting the existing system to a more efficient one. I would like to know what we can do and how we can do it. To be very honest, gentlemen, I do not want to increase the sales if we do not know how to handle that increase."

Discussion Questions

1. How might Lawson change its supply chain to be more efficient?
2. What problems would Lawson have implementing these changes with vendors?

Source: This case was prepared by S. Alton Erdem, University of Minnesota–Duluth.