

Marie-Louise Jacobsen

The Art of
Retail
Buying

An Insider's Guide
to the Best Practices
from the Industry



The title is centered and surrounded by elegant, swirling purple lines that frame the text.

The Art of **Retail** Buying

An Insider's Guide to the Best
Practices from the Industry

The Art of **Retail** Buying

An Insider's Guide to the Best
Practices from the Industry

Marie-Louise Jacobsen



WILEY

John Wiley & Sons (Asia) Pte. Ltd.

Copyright © 2009 by John Wiley & Sons (Asia) Pte. Ltd.
Published in 2009 by John Wiley & Sons (Asia) Pte. Ltd.
2 Clementi Loop, #02-01, Singapore 129809

All rights reserved.

No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except as expressly permitted by law, without either the prior written permission of the Publisher, or authorization through payment of the appropriate photocopy fee to the Copyright Clearance Center. Requests for permission should be addressed to the Publisher, John Wiley & Sons (Asia) Pte. Ltd., 2 Clementi Loop, #02-01, Singapore 129809, tel: 65-64632400, fax: 65-64646912, e-mail: enquiry@wiley.com.sg.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the Publisher is not engaged in rendering professional services. If professional advice or other expert assistance is required, the services of a competent professional person should be sought.

Photos from © Getty Images and Leng Peng® Fashion Book Centre

Other Wiley Editorial Offices

John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, USA
John Wiley & Sons Ltd., The Atrium Southern Gate, Chichester PO19 8SQ, England
John Wiley & Sons (Canada) Ltd., 5353 Dundas Street West, Suite 400, Toronto,
Ontario, M9B 6HB, Canada
John Wiley & Sons Australia, Ltd., 42 McDougall Street, Milton, Queensland 4064,
Australia
Wiley-VCH, Boschstrasse 12, D-69469 Weinheim, Germany

Library of Congress Cataloging-in-Publication Data

ISBN: 978-0-470-82322-4

Typeset in 11 points, Rotis Serif by Hot Fusion
Printed in Singapore by Markono Print Media Pte Ltd
10 9 8 7 6 5 4 3

Contents



Dedication	vii
Acknowledgments	ix
Introduction	xi
Chapter 1: Retail Formats	1
Chapter 2: Qualifications—Qualities—Abilities	11
Chapter 3: The Buyer's Roles	29
Chapter 4: Management Expectations	39
Chapter 5: Retail Math	53
Chapter 6: Budgeting	75
Chapter 7: Assortment Planning	95
Chapter 8: Anticipating Consumer Trends	127
Chapter 9: Forecasting Customer Demands	139
Chapter 10: Central Buying	157
Chapter 11: The True Essence of Buying	171
Chapter 12: Buying Merchandise	195
Chapter 13: Brand Strategy	243
Chapter 14: Managing Suppliers	265
Chapter 15: Negotiation	273
Chapter 16: Retail Shrink: The Bare Truth	287

Chapter 17: Leading By Example	307
Chapter 18: Business Communication	317
Appendix 1: International Trade Fairs	341
Appendix 2: Common Terms from The World of Fashion	347
Appendix 3: Catalog of Colors	365
Appendix 4: Common Shipping Terms	375
Glossary	387
Index	393

Dedication



To Stephen Wayne Johnson, my husband,
my best friend and my hero

Special Thanks



Patrick Chai - Eut Marketing
Leng Peng® Fashion Book Centre
Arthur Yen
Kelvin Quek - Goldlion
Deirdre Ball



To my friends Arthur, Adela, Doy, Aileen, Franco, GK, Jana, Kelvin, Patrick, Vish and Yoka: no formal introduction needed; you are my best.

To my husband Steve, who believes that books and friends should be few but good. Thanks for believing in and supporting this project.

To all the buyers, assistant buyers, merchandise managers, sales managers and dedicated sales staff with whom I have had the pleasure of working in the past 28 years: you have made me laugh, inspired and thrilled me, at times exasperated me but, most of all, imprinted wonderful memories that I will cherish always.

To my great friend Franco Guidotti, who shared with me his vast knowledge of Italian fashion, products, food and the Italian way of doing things. You have been a constant source of inspiration, and given me insights into design, sophistication and splendor.



As competition continues to escalate at a significant rate, retailers must utilize all their knowledge to keep pace with other merchants in the marketplace. Being able to forecast accurately the needs of their customers and satisfy them with the appropriate merchandise takes a great deal of experience and know-how. Perhaps more than anyone else in a retail organization, it is the buyers and merchandisers who are responsible for ensuring that the store's merchandise mix has the appeal to turn browsers into shoppers.

Although the sophisticated technology available to retail organizations today is an enormous help to buyers and merchandisers, their task still requires a great deal of knowledge and hands-on experience.

This book enables readers to examine the role of buyers and merchandisers, the qualifications, qualities and abilities required for the job, and how their decisions affect the business. Buyers who want to be successful must understand the climate within which they work. This environment consists of numerous components such as customers, types of retailers, the strategic planning process and the organization within which the buyer operates.

At one time or another, you have probably heard someone say: "Retail isn't rocket science. All you need to do is buy stuff and then sell it!" To the outsider, it may seem easy enough but those of us in the industry know better. Sure, the basic principles of buying can be learnt, particularly the general knowledge needed by all buyers in their day-to-day activities. But mastering the art of buying is something else.

What makes retail complex is that there are literally billions of buying options open to buyers. Take the approximately 195 countries in the world, multiply this by the number of manufacturers in each, and then multiply that by the number of items each makes just in that particular segment of the buyer's business and it gives you a pretty good idea of the complexity involved.

The tricky part is to sift through all these offers to find the right items that suit the retailer's customers. The task of selecting catalogs of merchandise the buyers anticipate will sell is only the first step. Then come the decisions of how much, in what colors, in what sizes, delivered in which months and placed in which locations, for all of these components to make a profit.

Retail is not for the faint-hearted. It takes a lot of hard work, dedication and the will to win customer loyalty. To gain and retain customers, you must first position yourself as the retailer of choice in the consumers' minds. This can be achieved by having the right merchandise of the right quality at the right price in the right location at the right time. There has been much talk about giving customers excellent or outstanding service but, unfortunately, not enough emphasis has been given to the core of the retail business: its products.

Retailers will, no doubt, agree that buyers are required to understand and use quantitative analysis in their day-to-day decision-making. Statistics on business performance are linked to consumer-spending behaviors which, in turn, are linked to strategic processes in selecting merchandise that will drive people's ability and willingness to buy.

Retail is BIG business. Worldwide retail sales are estimated to exceed US\$7 trillion and 30% of these sales are generated by the top 200 largest retailers. So staying ahead of the game requires today's retailers to be smarter in managing and controlling what goes on their shelves. It is essential for professional buyers to focus on their product selections, and ensure that these selections are products that will satisfy consumer expectations and demands. In essence, professional retail buying is about being able to anticipate consumer demands and create ideas that combine and combust into exciting products that fulfill the consumer's desires.

The Art of Retail Buying shares with you some of the secrets of the trade, including how to build a range of products and why some products are selected over others. Whether you are currently working in the industry or are looking to become involved in buying, I hope this book will prove both inspirational and informative. Even old dogs can learn new tricks.

In the summer of 2006, I was approached by People Skills Asia to create a syllabus on retail buying for buyers in Asia. There was a need for a professional buying course applicable for Asian retailers that would tackle issues particular to the Asian region. People in the retail industry found that the courses available were too academic and theoretical for practical implementation.

What was needed was a course covering the how-to, the what-to and the when-to, with easy-to-understand material and case studies that would enhance their buying skills and facilitate the management of their daily activities.

From my 30 years of extensive retail experience—15 of which had been spent as General Manager Merchandising with one of Singapore's leading retail groups—I understood only too well the many challenges facing retailers and it took very little convincing for me to become involved in the project.

Throughout my career, I have always tried to make enhancing people's buying skills an enjoyable and rewarding task. So when I was asked to write a syllabus on retail buying, I felt I had much to contribute. Such was the success of the course, launched in Bangkok in the autumn of 2006, that I was prompted by many participants to turn the syllabus into a book because, they said, not all retail companies were willing to invest in training their buyers and many would benefit from having such a book at their disposal.

Retailers should recognize that without talented and knowledgeable buyers, they risk losing market share, customer

loyalty and competitiveness—all of which translates into profit, or the loss of it. Training and enhancing buyers' skills is a vital part of staying ahead.

Retail buying is a demanding job that requires a creative flair, a strong awareness of fashion and lifestyle trends, as well as good interpersonal and team-working skills. Buyers and merchandisers have to ensure that the right merchandise is being sent to the right stores, at the right time, in the right quantities. This takes a blend of forward planning and rapid response to consumer demands. In combination with the other areas of the business, success comes from maximizing profit, which is achieved through anticipating customer needs and responding rapidly to immediate issues. It involves complex data analysis, liaison with the store's operation teams and balancing store stock levels.

To succeed as a professional buyer, you will need strong analytical and numerical skills, an interest and understanding of consumer demands and strong commercial awareness. A buyer also needs to have the ability to understand and prioritize issues quickly and this can be achieved through good time-management by tending to issues that have an impact on the business performance. Progression into the merchandising function also involves the ability to manage change. The better equipped you are in your buying function, the better you will be able to adapt to these changes: and the best change of all is to graduate from a good buyer to an excellent one!

As a norm, retail management will be expecting buyers to deliver higher year-after-year sales and profit projections, and it is not uncommon to hear buyers lamenting and wondering how they are going to match their management's expectations. The answer lies in re-thinking and re-strategizing your buying plans, as in how and why certain products are being bought, and by reviewing your vendor portfolio and asking if all are performing to expectation. Once this is established, the next natural step is to apply the Pareto Rule of 80–20. This principle implies that 80% of your sales are usually generated by 20% of your vendors: as such, some of that percentage growth can be found in building on your top-performing vendors and replacing weaker ones. I call this “the art of knowing what to keep and what to grow,” or “the art of knowing what to keep and what to throw.”

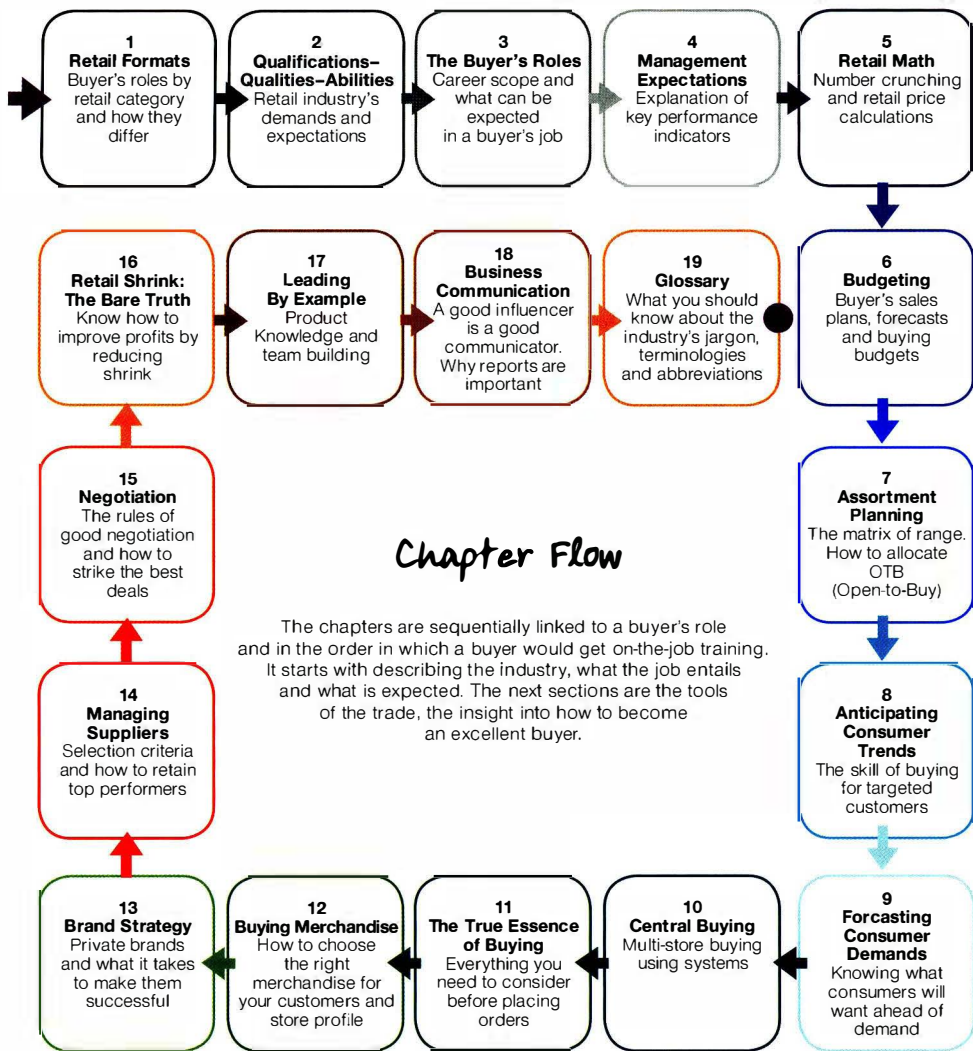
Why do people buy a new cookbook? For some, it is to learn how to cook; for others, it's to find better and more delicious ways to prepare food. Likewise, *The Art of Retail Buying* is meant for

students aspiring to enter the retail industry and anyone in the industry looking for self-development, inspiration and growth.

Predicting consumer demands starts with understanding and responding to consumer trends. The prime objective of the buying function is to anticipate the needs and wants of customers by being ready to gratify their product desires, and this can only happen if you, the buyer, spend time on the selling floor interacting with your customers!

From the outset, a good buyer needs to be equipped with the right sets of tools. The skills required can be learned and/or improved at any time, and what better time than now to start expanding your proficiency.

Welcome to *The Art of Retail Buying*, your insider's guide to the best practices from the retail industry.





WHAT IT TAKES

Before we look at the various organizational structures within which buyers are called upon to operate, it might perhaps be useful to say a few words about the personal qualities and characteristics that contribute to making a good and successful buyer.

In my experience, anyone wanting to engage in a retail buying role should have a creative and extrovert personality, be a natural problem solver and be able to handle a high level of multi-tasking. Retail buyers must be able to understand and predict customers' needs and the saleability of a wide selection of products based on

cost, style, function and quality while, at the same time, comparing these to other similar products available in the market. This is a significant task because they must order items months ahead of time, which requires a great deal of calculated risk based on experience and, more often than not, on sheer gut feeling.

Buyers need to put aside personal tastes and preferences and focus solely on what they anticipate customers will buy, in what quantities and at what premium. In making these choices, they also have to do so within specific purchasing budgets. A great deal of self-confidence is needed. Buyers eventually become experts in the merchandise categories they are buying for. After an initial trial-and-error period, they come to know what to buy, how to buy and where to buy, narrowing down wide selections of resources and knowing the best places to buy.

A retail buyer works in a dynamic but sometimes stressful atmosphere where decisions are made hourly. There can also be long and irregular hours, especially during holidays. Work is always fast-paced and competitive, and the buyer must quickly estimate the potential profitability of many products.

These conditions may vary, depending on the size and type of the organization for which the buyer works. Large department stores and chain stores require a buyer to plan, buy, and ensure that the sales staff is knowledgeable about the products. The role is, however, supported by back-office roles such as assistant buyers, visual merchandisers and other operational functions.

In a small store, a buyer may hold more than one position which, besides buying, may include advertising, floor and window displays, hiring new employees and training.

The roles of the buyer can be many and varied, being determined by factors such as the size of the company (the number and locations of outlets); the number of staff; the yearly revenue; and the merchandise classifications. Set out below are some of the many types of retail organization in which buyers may choose to shape a career.

RETAIL FORMATS

• Hypermarkets/Supermarkets

Hypermarkets are big business and growing fast in Asia. Asian consumers have changed their shopping habits, moving away from traditional wet-markets to the comfort of hypermarkets/

supermarkets, which provide a wide selection of goods in pleasant surroundings, and where the freshness of meat and vegetables is assured.

Hypermarkets in Asia can be home-grown like Mydin in Malaysia, or local start-ups such as Dairy Farm that grew to regional reach, or imported concepts such as Tesco, Carrefour and Jusco.

What they all have in common is that they sell “general” merchandise that includes perishables, household items, hardware, toys, small electronics, clothing, toiletries, cosmetics, furnishings and furniture, and more. They all boast of either being the cheapest or, at least, of offering the best value for money.

• **Discount stores**

Discount stores are stores that sell local or regional brands at lower than market price points. They can have a wide mix of goods or concentrate on specific merchandise types. More often than not, they will buy season-end merchandise, job lots and/or secondary brands. Merchants are required to hunt for deals regionally and buy in bulk to get the lowest price possible.

Factory outlets have been developed by the brand owners to release their own discounted season-end goods. The benefit lies in the control of the retail price this gives and thus leads to better profits.

What, then, is the difference between a hypermarket and a discount store? Comparative research has shown that the hypermarkets tend to have higher mean prices, but use promotional tools more often and more widely than the discount stores. Hypermarkets use promotional areas with strong signage that gives the impression that they are cheaper because they have the muscle to buy big and are thus able to offer bigger discounts. The advantage hypermarkets have is in the depth and width of the products on offer, which make it practical for consumers to shop there.

• **Department stores**

Department stores come in two types: those with a full-line designation, which carry a wide range of merchandise, from health and beauty to fashion/softgoods and accessories, to household and small electrical items/hardgoods and, occasionally, specialty gourmet foods; or those dedicated to specific brands or products. Department stores may have stores within the store, like shop-n-shops, ID-shops or specialist sections.

Because the department store serves as “the umbrella” for a wide assortment of goods, it is deemed convenient for customers to shop there.

While some department stores may concentrate on specific merchandise types, such as apparel and accessories, in the majority of cases they, like other retailers, need to decide which customer profile they intend to pursue and buy accordingly.

The vulnerability of today's department stores is that they have a hard time competing with true branded stores (see below). Customers are becoming increasingly fussy, and without very good service and merchandise that can give them points of differentiation, department stores may lose their edge. To maintain customer loyalty, some stores have adopted store credit cards and created special card-member events with special offerings or discounts to reinforce loyalty and consumer spending. The balancing act, though, is not to use such marketing tactics too often; otherwise, consumers can become blasé with yet another discounting event.

• **Branded stores**

Branded stores are those that carry single known brands. These may be globally or nationally renowned brands such as Nike, Adidas, Esprit, Mango, Zara, Timberland, Levis', and H&M; or “high-end” brands such as Gucci, Prada, Fendi and Burberry. These stores are either operated directly by the brand owners or through a franchise agreement.

The merchandise, price points, store layout, store design, store locations and merchandise displays are usually strictly spelt out by the Master Licensee or brand owner. Customer service is high and specialized. These stores are usually located in “choice” areas, streets or malls, with the stores designed specifically to encapsulate the mood of the brand. Customer loyalty is linked to brand loyalty



which, in turn, gives the consumers a sense of identity with the brand. Branded stores lose their customers when they start losing their luster. I call these “sunset brands”: in most cases, the brand has either lost touch with its customers, or the customers have graduated from them and moved on to other brands that are more in tune with their lifestyle.

- **Single-unit independents**

This trend is still big business in retailing. There are still many entrepreneurs who wish to be their own boss. Many of them are very successful, as they are able to cater very specifically to their customers’ needs and give them personalized services.

The merchandise, similar to that in specialty stores, is usually limited in choice but appealing nevertheless. The “boutiques” can carry ranges of shoes, jewelry or apparel, which are usually higher-priced goods and sometimes custom-made.

Initially, the owners themselves usually act as the buyers but, as the business grows, they may expand this role to incorporate hired professional buyers.

- **Specialty stores**

Specialty stores are, as the name suggests, stores that specialize in specific types of merchandise, with a specific lifestyle offering. These can vary from luxury goods to mid-priced high-quality goods at commercial price points. Examples include sports shops, dive shops, telecoms shops, book stores, branded cosmetics (a new trend in the health & beauty industry), antique shops, oriental carpet shops and shoe shops, to name but a few. Here the attraction is that customers shop these stores as a destination shopping trip. The expectation is that they must have a wide choice of merchandise within their respective specialist categories and very knowledgeable staff who can recommend the right items.

The specialist stores are vulnerable to competition from general merchandising retailers who may opt to have some specialist sections for which they are sometimes able to buy in bulk and sell these items quite cheaply, creating price mayhem with point-of-no-return price levels (the point at which an item has been discounted so often that it can no longer command its original price). For example, pashmina shawls used to retail at \$500 when they first came on the market. Big retailers then bought these in bulk and sold them at \$300; other retailers discounted them further to \$200, and

today they can be as low as \$150. In such circumstances, they can no longer command their original value of \$500: the price has gone down to a point of no return.

Specialty stores are compelled to know a great deal about their customers and their individual requirements. There is usually a great deal of customer follow-up and special purchases on customers' behalf.

• **Franchised stores**

When the owners/developers of a concept or brand wish to expand the business into other territories or countries, they often adopt the franchising business model under which, for a fee, the franchisee is given the right to operate the retail concept in very specific locations (regions). This retail operation is conducted under specific rules and regulations that have been set out by the owners (the franchisors).

Franchises abound in the fast-food industry—McDonald's, Wendy's, Kentucky Fried Chicken, and Starbucks—but are also found in the fashion industry—Zara, Mango, Debenhams, Tommy Hilfiger and more.

• **Catalog retailing**

Catalog selling is still very popular, especially in the United States. Examples in Asia include Ikea and Lands' End.

Some department stores feature merchandise that is only available through this channel and thus will have separate buyers purchasing for the catalog business.

Some retailers in the United States use only catalogs as a means to reach their customers, with the exception of a few factory outlets to dispose of slow-moving merchandise.

• **License stores**

Licensing is similar to franchising, with the main difference being the start-up fee. Some of the best-known of such arrangements include Benetton—the largest retail licensor in the world—Ralph Lauren, and Marks & Spencer.

Here the licensees are required to follow the merchandising philosophies established by the licensors, and the buyer's role is quite different from any other retailing format. The merchandise sold is either produced completely by the licensee—in which case the buyer needs to be able to do product development—or purchased directly from the licensor (the original brand owner) by the licensee's buyer for distribution to the individual units. Generally, the

individual stores have no buying responsibilities. Today, increasingly, licensors adopt a “push-model,” under which the licensee gives the licensor an open-to-buy (OTB) budget (OTB being the difference between planned purchases and stock already ordered, or the value of merchandise that a buyer can order for a particular period), and the licensor selects all the merchandise to that value. Under this business model the licensee does not require a buyer. Though convenient for the licensor, it is riskier for the licensee.

Ideally, it is best when the licensees have some say in the assortments they carry, as these would be bought with their particular customer profile in mind. Benetton, for example, has as many as several thousand styles each season, and the individual licensees have the right to buy or select what they deem best for their stores.

• **Chain organization**

Chain organization is defined as multiple outlets under a common ownership. These can be general merchandise stores, limited-line stores, specialty stores or stores with different concepts but under one group. They can vary from discount stores and value-oriented stores to private brand stores or even off-price stores. Off-price stores are stores that sell only discounted merchandise. Unlike factory outlets, which sell only a specific brand, off-price stores can sell a wide range of merchandise. Buyers, in this case, would be looking for factory over-runs, season-end goods or job lots.

BUYERS' WORK ACTIVITIES

Typical work activities can vary according to the season, particularly for those working in fashion. Out of season, the majority of the time will be spent in the workplace (in the office and on the shop floor). During the buying season, a significant amount of time will be spent away from the workplace in assembling a new collection of merchandise.

Throughout the year, tasks typically involve:

- Analyzing trends; regularly reviewing performance indicators with sales
- Managing plans for stock levels; reacting to change in demand and logistics

- Meeting suppliers and negotiating terms of contract
- Managing relationships with existing suppliers
- Sourcing new suppliers for future consumer demands
- Liaising with other departments within the organization to ensure projects are completed
- Attending trade fairs/trade shows, locally and abroad, to select and assemble a new collection of products
- Participating in promotional activities
- Finding time to interact with customers
- Writing reports and sales forecasts, and analyzing sales figures.

In my many years in retailing, the one thing that has been consistent, regardless of the company I have been working for, is

the buyers' lack of enthusiasm for writing reports, which are often handed in late, some incomplete, or worst of all, inaccurate. The main reason for this is that these buyers are not intimate enough with what is going on in their departments or areas of responsibility. As they are rarely on the selling floor, they do not have first-hand information on customer reaction to the merchandise and do not relish reading tedious computer-generated sales and profit analysis reports. The result is

that many reports are scantily done.



What many of these buyers have failed to understand is that poorly written reports connote poor job performance. How can management have confidence in buyers who cannot summarize their weekly or monthly trade clearly and cogently? Time spent in learning how to construct reports properly is time well spent. It will not only help you comprehend your business better, but will also signal to management that you are a professional, you know what is happening in your business, and can therefore recommend plans of action which will more than likely be accepted and supported.

Great influencers are always great communicators!



REQUIREMENTS FOR A BUYING CAREER

At one time in the retail industry, it was common for people to start at the very bottom of the ladder and make their way up, in some cases even to a senior management level. While there are still many such stories, this is no longer typical.

Today's buying hopeful must possess leadership, management and decision-making skills to meet the challenges of a career.

The following requirements are universal in the retail industry. The abilities listed are necessary for a successful buying career irrespective of the store's location. The bigger the market, the higher

the stakes and demands on the buyers to buy merchandise that will keep their store competitive.

As you progress through the book, you will find that most of the subjects are catering for stores that buy a very wide range of merchandise for many different store formats. However, those of you who are operating with specific brands only should also read on: the fact of the matter is that your brand is in heated competition with all the other retailers out there.

If you also think that you don't have much influence on the ranges that your principals are showing you, think again. You do, and in more ways than one.

Think of it this way: the retail market is like a great big jigsaw puzzle of the ocean. Each piece may look the same but each has its specific place. Buying merchandise is a bit like that—similar yet different, because each serves a specific customer requirement, desire and demand. Your job will be to find that piece and place it exactly where it's supposed to be ... on your shelves: if you anticipate that requirement, desire and demand, the piece will fit just perfectly.

THE 12 QUALIFICATIONS—QUALITIES—ABILITIES REQUIRED FOR A BUYING CAREER

1. Education

A college education—preferably a degree majoring in retail management, marketing or business administration, or a degree from a fashion merchandising school—is considered a must for a buying career. Liberal arts graduates who show interest in retailing can also be considered.

The reason for this is the amount of work involved in analyzing company reports, financial statements, inventory listings, open-to-buy positions, unit sales summaries, and so on.

There are some retailers who are willing to offer tuition and courses to further enhance the skills of their buyers or buyers-to-be. Investing in education is good for both company and staff, improving individual productivity and translating into better merchandising management.

We are all constantly on a learning curve. Even without a college degree, you can continually expand your knowledge.

I believe that this book can help you improve your current processes and inspire you to take a fresh look at the way you do things.