

# Buying Merchandise

CHAPTER 13

# Questions

- What branding options are available to retailers?
- How do retailers buy national brands?
- What issues do retailers consider when buying and sourcing private label merchandise internationally?
- How do retailers prepare for and conduct negotiations with their vendors?
- Why are retailers building strategic relationships with their vendors?
- What legal and ethical issues are involved in buying merchandise?

# Brand Alternatives

- National (Manufacturer) Brands
  - Designed, produced, and marketed by a vendor and sold by many retailers
- Private-Label (Store) Brands
  - Developed by a retailer and only sold in the retailer's outlets



# Retailers' branding approach

- Similar to national brands, retailers use their name to create a private label for merchandise
- The Gap, Victoria's Secret use a family brand approach
  - All of private label merchandise is associated with their name
- Macy's uses a portfolio approach
  - A portfolio of private label brands with different merchandise types (Charter Club, First Impressions, Greendog, INC, The Cellar, Tools of the Trade)

# Categories of Private Brands

## Premium

- Comparable to, even superior to, manufacturer's brand quality, with modest price savings

## Copycat

- Imitate the manufacturer's brand in appearance and packaging, perceived as lower quality, offered at a lower price

## Exclusive Brands

- Developed by a national brand vendor and sold exclusively by the retailer

## Generic Brands

- Target a price-sensitive segment by offering a no-frills product at a discount price

# Exclusive Brands

<b>Retailer</b>	<b>Manufacturer/ Designer</b>	<b>Product Category</b>	<b>Product Name</b>
Kohl's	Estée Lauder	Cosmetics	American Beauty, Flirt, and Good Skin
Walmart	Mary Kate and Ashley Olsen	Apparel and accessories	Mary Kate and Ashley
Walmart, Best Buy*	Hewlett-Packard	Computers	
Macy's†	Martha Stewart	Soft home (sheets, towels)	Martha Stewart Collection
Macy's	Jones Apparel Group (Rachel Roy)	Apparel and accessories	Rachel by Rachel Roy
McDonald's	Newman's Own Organic	Coffee	Newman's Own Organic
JCPenney‡	Ralph Lauren	Home goods, apparel, and accessories	American Living
JCPenney	Nicole Miller	Apparel and accessories	Nicole by Nicole Miller

\*Christopher Lawton, "Tweaking the Standard-Issue PC," *Wall Street Journal*, June 14, 2007, p. D1.

†Lisa Biank Fasig, "Celebrities, Designers Court Macy's for Exclusive Lines," *Business Courier of Cincinnati*, August 31, 2009; Teresa F. Lindeman, "Brands Expand: Retailers Work to Create Exclusive Products to Set Themselves Apart," *Pittsburgh Post-Gazette*, August 24, 2007.

‡*ibid*; Stuart Elliott, "No Polo Pony, but Penney's New Label Is Pure Ralph Lauren Americana," *New York Times*, February 19, 2009.

# National Brands or Private Labels?

Impact on Store	TYPE OF VENDOR	
	National Brands	Private-Label Brands
Store loyalty	?	+
Store image	+	+
Traffic flow	+	+
Selling and promotional expenses	+	-
Restrictions	-	+
Differential advantages	-	+
Margins	?	?

+ advantage to the retailer; - disadvantage to the retailer; ? depends on circumstances.

# National (Manufacturer) Labels

- Advantages

- Help retailers build their image and traffic flow
- Reduces selling and promotional expenses
- More desired by customers
- Customers patronize retailers selling the branded merchandise
- Push some of the financial risk onto the vendor

- Disadvantages

- Lower margins
- Vulnerable to competitive pressures
- Limit retailer's flexibility



The McGraw-Hill Companies, Inc./Lars Niki, photographer

# Private Labels

- Advantages

- Unique merchandise not available at competitive outlets
- Exclusivity boosts store loyalty
- Difficult for customers to compare price with competitors
- Higher margins

- Disadvantages

- Require significant investments in design, global manufacturing sourcing
- Need to develop expertise in developing and promoting brand
- Unable to sell excess merchandise
- Typically less desirable for customers

# Buying National Brand Merchandise

- Buying decision for fashion apparel/accessories:
  - 5-6 times a year
  - Many months before delivery
  - Withhold open-to-buy (OTB) for new items with fashion change
- Buying decision for staple merchandise:
  - Less frequent
  - Continuous replenishment

# Meeting National Brand Vendors

- Wholesale Market Centers
  - National Markets (new York), Regional Markets (Dollars, Atlanta, Miami), London, Milan, Paris, Tokyo
- Trade Shows
  - Frankfurt Book Fair, Las Vegas Consumer Electronics Show, Atlanta Super Show for Sporting Goods
- Internet Exchanges
  - Worldwide Retail Exchange
- Meeting Vendors at Your Company

# National Brand Buying Process

- Meet with vendors
- Discuss performance of vendor's merchandise during the previous season
- Review the vendor's offering for the coming season
- May place orders for the coming season
- Sometimes they do not buy at market, but review merchandise, return to their offices to discuss with the buying team before negotiating with vendors

# Developing and Sourcing Private Label Merchandise

- In-House: Large retailers (e.g., JCPenney, Macy's, The Gap, American Eagle Outfitters) have divisions specialized in
  - identifying trends, designing, specifying products
  - Selecting manufacturers
  - Monitoring and managing manufacturing conditions and product quality

# Developing and Sourcing Private Label Merchandise

- Acquisition: Limited Brands acquired MAST Industries
  - MAST
    - one of the world's biggest contract manufacturers, importers, distributors of apparel
    - Have manufacturing operations and joint ventures in 12 countries
    - Also provides private label merchandise for Abercrombie & Fitch, Lane Bryant, New York & Company, Chico's
- Outsource: ex. Li & Fung – partnered with many specialty retailers

# Sourcing Merchandise

After decisions are made on what and how much private label merchandise will be acquired,

- Designers develop specifications
- Sourcing departments find a manufacturer, negotiate a contract, and monitor the production process, or
- Use Reverse Auctions to get quality private label merchandise at low prices

# Reverse Auctions

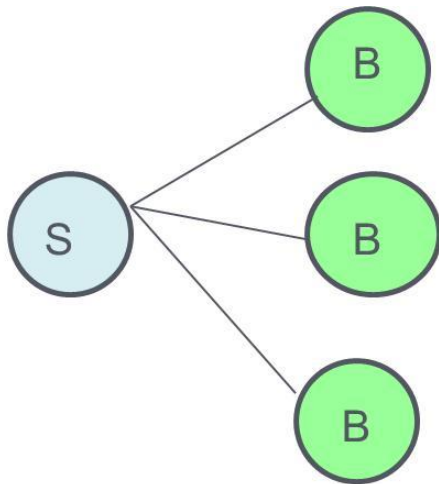
**Why reverse?**

**One buyer (the retailer), multiple sellers**

**Sellers bid for buyer's business**

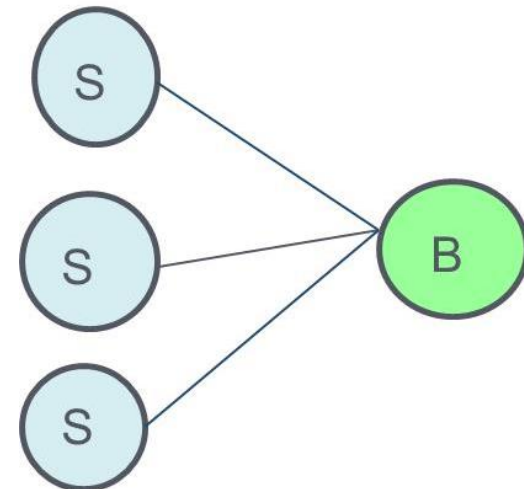
**Price falls**

**No strategic relationships with vendors**



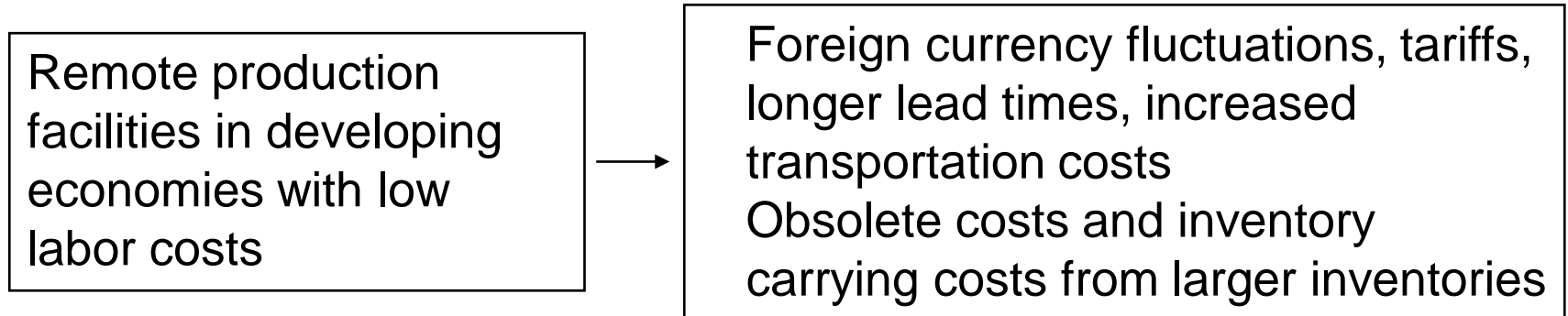
Traditional Auction

Reverse Auction



# Global Sourcing

- Costs Associated with Global Sourcing Decisions



- Managerial Issues

- Quality control, time-to-market, social political factors
- Difficult for collaborative supply chain management (CPFR) based on short and consistent lead times
- Human rights and child labor

# Negotiating with Vendors

- Two-way communication designed to reach an agreement when two parties have both shared and conflicting interests.



# Negotiating with Vendors Continued

## Negotiation Issues

- Price and gross margin
  - Margin Guarantees
  - Slotting Allowances
- Additional markup opportunities
- Purchase terms
- Terms of purchase
- Exclusivity
- Advertising allowances
- Transportation



# Price and Gross Margin Issues

- Markdown money
  - Funds from a vendor to a retailer to cover decreased gross margin from markdowns

# Price and Gross Margin Issues

- Slotting Allowances
  - A charge imposed by a retailer to stock a new item (in supermarkets)
  - For Retailers
    - To ensure efficient uses of their valuable space
    - To determine which new products merit inclusion in their assortment
  - Manufacturers view them as extortion

# Tips for Effective Negotiations

- Have at least many negotiators as the vendor
- Choose a good place to negotiate
- Be Aware of real deadlines
- Separate people from problem
- Insist on objective Information
- Invent options for mutual gain
- Let the other party do the talking
- Know how far to go
- Don't burn bridges
- Don't assume

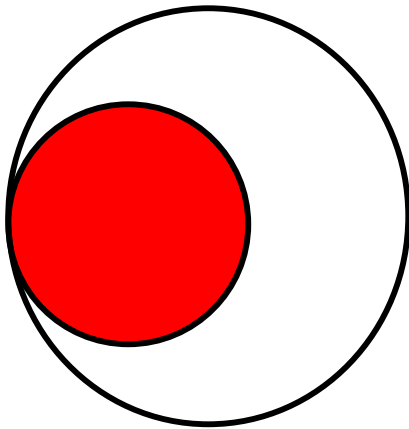
# Strategic Relationships

- Retailer and vendor committed to maintaining relationships over the long-term and investing in mutually beneficial opportunities



# Strategic Relationships

Win-Win Relationships -- Concerned about expanding the pie, not how to divide the pie



Retailer

vs.



Vendor

# Building Blocks for Strategic Partnerships

- Mutual Trust
- Open Communication
- Common Goals
- Credible Commitments



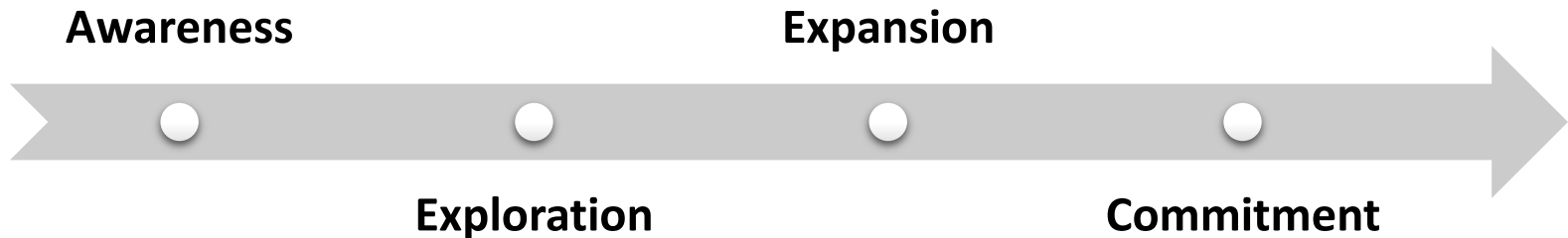
# Building Partnering Relationship

- Discrete

- One Purchase at a Time
- Short-Term
- Focuses on Price
- Win-Lose Negotiations
- Governed by Contracts

- Partnering

- Anticipate Future
- Long-Term
- Considers all Elements
- Win-Win Collaboration
- Governed by Trust



# Legal, Ethical, and Social Responsibility Issues for Buying Merchandise

- Purchase Terms and Conditions
- Resale Price Maintenance
- Commercial Bribery
- Chargebacks
- Buybacks
- Counterfeit Merchandise
- Gray Markets and Diverted Merchandise
- Exclusive Dealing Agreements
- Tying Contract

# Terms of Conditions of Purchase

- The Robinson-Patman Act (Anti-Chain-Store Act)
- Restricts the prices and terms that vendors can offer to retailers
- Forbid vendors from offering different terms and conditions to different retailers for the same merchandise and quantity
- Different prices can be offered if
  - The costs of manufacturing, selling, and delivery are different
  - The retailers are providing different functions (e.g., distribution, store service, etc.)

# Commercial Bribery

- A vendor or its agent offers to give or pay a retail buyer “something of value” to influence purchasing decisions.
- A fine line between the social courtesy of a free lunch and an elaborate free vacation.
- Some retailers with a zero tolerance policy
- Some retailers accept only limited entertainment or token gifts.

# Chargebacks

- A practice used by retailers in which they deduct money from the amount they owe a vendor without getting vendor approval.
- Two Reasons:
  - merchandise isn't selling
  - vendor mistakes
- Difficult for vendors - Disrupt relationships

# Buybacks

- Stocklifts, Lift-outs
- Used to get products into retail stores.
- Two scenarios:
  - Retailer allows a vendor to create space for its goods by “buying back” a competitors inventory and removing it from a retailer’s system.
  - Retailer forces a vendor to buyback slow-moving merchandise.

# Counterfeit Merchandise

- Goods made and sold without the permission of the owner of a trademark, a copyright, or a patented invention that is legally protected in the country where it is marketed
- Major problem is counterfeiting intellectual property

# Gray-Market, Diverted, and Black-Market Merchandise

- Gray-Market Merchandise (parallel imports) possesses a valid U.S. registered trademark and is made by a foreign manufacturer but is imported into the United States without permission of the U.S. trademark owner.
  - Not Counterfeit
  - Is legal

# Gray-Market, Diverted, and Black-Market Merchandise

- Diverted Merchandise is similar to gray-market merchandise except there need not be distribution across international boundaries.
- A black market occurs when consumer goods are scarce, such as water or gasoline after a natural disaster; heavily taxed, such as cigarettes or alcohol; or illegal, such as drugs or arms.

# How do Vendors Avoid the Gray-Market Problem?

- Require retail and wholesale customers to sign a contract stipulating that they will not engage in gray marketing.
- Produce different versions of products for different markets.



# Exclusive Dealing Agreements

- Occur when a manufacturer or wholesaler restricts a retailer into carrying only its products and nothing from competing vendors
  - Example: Safeway – Coca-Cola
- Illegal when they restrict competition

# Tying Contracts

- An agreement that requires the retailer to take a product it doesn't necessarily desire (the tied product) to ensure that it can buy a product it does desire (the tying product)
- Illegal when they lessen competition
- Ok to protect goodwill and quality reputation of vendor – legal for a vendor to require a buyer to buy all items in its product line

# Refusals to Deal



- Suppliers and retailers have the right to deal or refuse to deal with anyone they choose.
- Except when it lessens competition.

# Corporate Social Responsibility

- Corporate social responsibility describes the voluntary actions taken by a company to address the ethical, social, and environmental impacts of its business operations.
- Fair trade is a socially responsible movement that ensures that producers receive fair prices for their products.

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