

CHAPTER 1

INTRODUCTION

1.1. Research Background

Retail is one of the chains of distribution channels that play an important role in the delivery of goods and services to the end customers. According to (Risch,1991) the word 'Retail' is derived from a French word, *retailer*, with the prefix *re* and the verb *tailer* meaning "to cut again". Meanwhile, the retail definition by (Gilbert, 2003) is any business that directs its marketing effort towards satisfying the final customer based upon the organization of selling goods and service as a means of distribution. Of these terms, retail is a business that becomes the last chain of the distribution channel.

Retail also can be divided into two categories, the modern retail and the traditional retail (Tambunan, 2004; Utomo, 2011). Both of the retail categories have different characteristics. In accordance with (Utami, 2014), some of the characteristics between modern retail and traditional retail are compared in table 1.1. :

Table 1.1. Characteristics of Modern Retail and Traditional Retail

Traditional Retail	Modern Retail
Location Selection is not considered	Location Selection is considered
There is no Customer Loyalty Program	There is Customer Loyalty Program
Not Focused on merchandising and target market	Focused on merchandising and target market
Less Brand Selection	Strict Brand Selection
Less Supplier Selection	Strict Supplier Selection
Less Sales Recording	Sales recording and evaluated
Profit per product is not evaluated	Profit per product is evaluated to establish a retail mix strategy
Accept Loan	Payment by cash or using credit card

Less attention to efficiency	More attention to efficiency
Merchandise Budgeting is not planned	Merchandise Budgeting is planned
Less Financial Management	Financial Management carried out
Business development is unplanned	Business development is planned

One of the intermediaries in the marketing channel is retailers. A retailer is a merchant or occasionally an agent or a business enterprise, whose main business is selling directly to the end consumers for non-business use. The retailer performs many marketing activities such as buying, selling, grading, risk-trading, and developing information about customer's wants. According to (Sullivan and Dennis, 2002), retailer is a dealer or trader selling goods in small quantities or more pedantically the one who repeats or relates.

The set of business activities that adds value to the products and services sold to consumers for their personal or family use is called retailing, by (Levy and Weitz, 2007; Berman and Evans, 2007). In this case, the end consumer is the target of a retailing who purchases products for their own consumption whereas in the retailing business, goods and services or a combination of both namely products that are sold.

Based on (Vinod, 2005), retailing is a very complex business. Getting the right product to the right store with the right quantity at the right time with the right price at the lowest cost of delivery is a very challenging task. Retailing also consists of multiple factors including location selection, pricing and promotions, distribution, market response, lifetime value of retail customers, merchandising, customer loyalty programs, private labels, price matching and return policies, new products, e-tailing, retailer–manufacturer interactions, product assortment and stock-outs, retail branding, and customer satisfaction (Kamakura, Kopalle, & Lehmann, 2014).

The various processes which help the customers to procure the desired merchandise from the retail stores for their end use refer to retail management (Sunyoto, 2015). Retail management includes the all steps required to bring the customers into the store and to fulfill their buying needs.

One thing that needs to be considered, particularly for the small retailer, is effective retail merchandise management (Staples & Swerdlow, 1978). The effective retail merchandise management is part of retailing business. Merchandise management can be termed as the analysis, planning, acquisition, handling and control of merchandise investment of a retail operation. The retailer must be able to plan and budget for the merchandise requirements to avoid lost sales, lost profits, potential obsolescence, and lost opportunity cost due to a too large, out-of-date inventory (Staples & Swerdlow, 1978).

The merchandise budgeting is one of the plans in merchandise planning as a tool in the hands of retailer. It is a financial plan, which gives an indication to the retailer of how much actual money can be spent in the future periods to avoid the shortage. Therefore, it can increase the sales. Merchandise budgeting is also defined as a planning of the merchandise inventory of the retail; it helps to balance the expectation of the target customers and the strategy of business. Several studies have confirmed that using merchandising techniques in the store can stimulate sales of a product (Chevalier, 1975; Wilkinson et al., 1992; Bemmaor and Mouchoux, 1991; Narasimhan et al., 1996; Inman et al., 2009; Bezawada et al., 2009; Garrido-morgado & González-benito, 2013).

Mitra Mart is one of retailers which is located at Rantepao, Toraja Utara, South Sulawesi. As the place of research, Mitra Mart is an independent store that is owned by David Wongkar and Nova Djiwang as an independent retailer. An independent retailer is someone who is completely responsible for his or her own business. The retailer owns or has bought an independent store and has built the business from the ground up by assessing all needs of the store, which can include staffing, marketing, merchandizing, and sale. The Mitra Mart has been established since 2002. They sell many kinds of daily needs such as food, snack, drinks, toiletries, and similar stuff.

Mitra Mart can be classified as traditional retail, according to several characteristics (Utami, 2014) that are provided in table 1.2. :

Table 1.2. The Characteristics of Mitra Mart

NO	Traditional Retail	MITRA MART		Modern Retail	MITRA MART	
	Characteristic	Y	N	Characteristic	Y	N
1	Location Selection is not considered	✓		Location Selection is considered		✓
2	There is no Customer Loyalty Program	✓		There is Customer Loyalty Program		✓
3	Not Focused on merchandising and target market	✓		Focused on merchandising and target market		✓
4	Less Brand Selection	✓		Strict Brand Selection		✓
5	Less Supplier Selection	✓		Strict Supplier Selection		✓
6	Less Sales Recording	✓		Sales recording and evaluated		✓
7	Profit per product is not evaluated	✓		Profit per product is evaluated to establish a retail mix strategy		✓
8	Accept Loan		✓	Payment by cash or using credit card	✓	
9	Less attention to efficiency	✓		More attention to efficiency		✓
10	Merchandise Budgeting is not planned	✓		Merchandise Budgeting is planned		✓
11	Less Financial Management	✓		Financial Management carried out		✓
12	Business development is unplanned	✓		Business development is planned		✓

Based on the characteristic of traditional retail and modern retail that is explained above, Mitra Mart has some characteristics as a traditional retail. The

characteristics are 1) location selection is not considered, 2) there is no customer loyalty program, 3) not focusing on merchandising and target market, 4) less brand selection, 5) less supplier selection, 6) less sales recording, 7) profit per product is not evaluated, 8) less attention to efficiency, 9) merchandise budgeting is not well planned, 10) less financial management, and 10) the business development is unplanned. Therefore, it can be concluded that Mitra Mart is categorized as a traditional retail because they operate the retail business using conventional and traditional approach.

As a traditional retail Mitra Mart is facing the problem of how much money need to be spent each month to do the merchandise. Mitra Mart needs to develop the merchandise budgeting as a planning tool in order to solve the problem that can support the sales, to improve their sales targets, to develop their business, to compete with other retailers especially modern retailers, and to retain their business. Merchandise budgeting is very important in the retailing to develop the retail business. Retail success depends on the availability and the diversity of merchandise. If the merchandise budgeting is not planned properly, the retailers will not be able to guarantee the availability of merchandise for its customers.

1.2. Problem Formulation

The problem formulation that can be concluded according to the research background is that Mitra Mart wants to control the amount of money spent each month to support the sales as a traditional retail. Therefore, Mitra Mart needs to plan the merchandise budgeting to balance the expectation of the target customers and the strategy of business.

1.3. Objective

Based on the problem formulation, the objective of this research is how to make the merchandise budgeting in a traditional retail.

1.4. Scope of Limitation

- a. Sales data, purchase data, stock opname data, and list of item data are collected from July 2015 until February 2016
- b. The End of Month (EOM) in June is Rp 200.000.000,-. It's assumed as the EOM of June because there is no data that were collected in the period of June. The EOM June is needed as the Beginning of Month (BOM) in July.

- c. The expected sales are assume to be increased 20%, normal and decreased 25%
- d. Total % monthly reduction is 1% from total projected sales, and 12,5% of monthly reduction for each period in eight months.
- e. The sales ratio assumed is 1,2 in the period July 2015 until February 2016. The Sales Ratio is the key performance indicator of the owner to purchase the merchandise.

