

CHAPTER 2

LITERATURE REVIEW AND THEORETICAL BACKGROUND

This chapter provides the literature review and the theoretical background that have been conducted. It discusses the retail merchandise budgeting and the traditional retail business.

2.1. Previous Research in Retail Merchandise Budgeting

Based on the research in retail (Stanton, 1987; Kotler, 2003; Foster, 2008), retail can be defined as all the activities involving the selling goods or services directly to the end consumer for personal and non-business use. The retail is also a responsibility in buying decision that involves planning, analyzing, purchasing, and controlling merchandise investment as stated by a research conducted by (Fairhurst & Fiorito, 1990; Kang, 2005). Then, according to the research about retailing by (Vinod, 2005), retailing is a very complex business where the responsibility of 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. Moreover, (Kamakura et al., 2014) also tells that the phenomenon in retailing includes location selection, pricing and promotions, distribution, market response, lifetime value of retail customers, merchandising, customer loyalty program, private labels, price matching and return policies, new product, e-tailing, retailer-manufacturer interactions, product assortment and stock-out, retail branding, and customer satisfaction.

A successful retailer must continue to satisfy their existing customers and hopefully attract new customers to strengthen his market position. From the research of (Levy, Grewal, Kopalle, & Hess, 2004) retailers also are interested in maximizing their profit. Retailers perform well-established planning process called merchandise planning to guide operation that is explained by (Vinod, 2005).

Based on the research of (Grewal et al, 1999), this is the era of “hyper competition,” retailers need to have a better understanding of the performance of individual store; so, they can more accurately plan their merchandise and set more realistic merchandise goals. The manufacturer’s and retailer’s reliance on merchandising actions has been growing over the past few years in the research by (Infoadex, 2013; Garrido-morgado & González-benito, 2013).

According to the AMA (American Marketing Association) in the research by (Garrido et al, 2013), defines the merchandising as a wide term that encompasses run by the manufacturer in the form of special presentations that take place within establishments, as well as initiatives run by the retailer to make the product stand out. Merchandising also refers to commercial actions at the point of sale aimed to stimulate customer's purchases as soon as they enter the establishment. Traditionally, it is conceived as a way to motivate the purchase with the highest benefit-cost ratio (Buttle, 1984; Garrido et al, 2013).

A research conducted by (Staples & Swerdlow, 1978) explains that one thing that needs to be considered, particularly for the small retailers, is effective retail merchandise management. The small retailers must make sure that they have the right merchandise at the right place at the right time in the right quantity and the right price. The retailers must be able to plan and to budget for their merchandise requirement to avoid the lost sales, the resulting lost profits, the potential obsolescence, and the lost opportunity cost due to a too large, out-of-date inventory. In the research by (Mazur, 1927; Kang, 2005; Wanniyake et al, 2007; Makhal, 2015) also says that merchandise planning involves purchasing activities for the right merchandise, at the right time, at the right place, in the right quantities, and the right price.

The planning process begins with the creation of a strategic financial plan (Vinod, 2005). The research by (Clodfelter, 1993;Frings, 1994;Kang, 2005) agrees that the merchandising plan includes a financial plan allocating specific amounts of money to the purchase of an appropriate product that will meet the consumer demand. The merchandise plan includes anticipated sales, stock, markdowns, and purchase plans for the upcoming six months season. An important forecast in retail merchandising is the sales forecast, which is a prediction of future sales for a specific period under a proposed marketing plan. The sales forecast can be used for several objectives for retail companies: sales forecast for merchandise planning (i.e., company-wide sales forecast) and sales forecast for assortment-planning (i.e., specific-item sales forecast).

Once the small business manager has completed his sales forecast for the upcoming months or years, he needs to develop the merchandise plan. The monthly purchase should be related to the previous sales forecast and the resulting sales plan(Staples & Swerdlow, 1978). The sales forecast affects

merchandise planning, which considers target-market analysis, store policy, and inventory control plan (Clodfelter, 1993; Rabolt & Miller, 1997; Kang, 2005).

The research of (Ralph, 1976; Staples & Swerdlow, 1978) explains that the major function of the merchandise plan is to provide monthly purchases of stock. The merchandise budgeting is a part of the merchandise plan that is used for the actual retail store as explained by (Kunz, 1998; Lee at al, 2002; Soediono, 2010) in the research.

Since merchandise planning and budgeting is a continuous process, the retailer is required to devote a considerable amount of his time to this one activity. The small business owner's concern for adequate sales levels must be accompanied by sales planning more as explained by (Staples & Swerdlow, 1978).

(Tambunan, 2004 ; Utomo, 2011) divide the retail into two categories, the modern retail and the traditional retail. The research shows that there are some of the different characteristics of modern retail and traditional retail which can support the retailing. Moreover, the research by (Prihatna, 2013) studied about the development of modern retailing caused the decreasing of traditional retail. Meanwhile, (Nurjanah, 2009) conducts a research in traditional retail which studies the internal control system of inventory to control the inventory of a traditional retail.

The summary of the literature review of retail, merchandise plan, merchandise budgeting and traditional retail can be seen in table 2.1:

Table 2.1. Research Benchmarking

No	Reference	Research Study							Retail Category		
		Retail						Traditional Retail	Merchandise Budgeting	Traditional Retail	Modern Retail
		R M	C M	P M	M M	A M	C S				
1	(Makhal, 2015)				✓		✓				✓
2	(Kamakura et al., 2014)	✓			✓						✓
3	(Utami, 2014)	✓			✓			✓	✓	✓	✓
4	(Garrido-morgado & González-benito, 2013)	✓			✓						✓
5	(Prihatna, 2013)	✓						✓			✓

6	(Utomo, 2011)	✓						✓			✓
7	(Soediono, 2010)	✓			✓				✓		✓
8	(Ray, 2010)	✓			✓				✓		✓
9	(Nurjanah, 2009)	✓			✓				✓		✓
10	(Foster, 2008)	✓			✓				✓		✓
11	(Vinod, 2005)	✓			✓						✓
12	(Kang, 2005)	✓			✓				✓		✓
13	(Levy et al., 2004)	✓			✓					✓	
14	(Lee et al., 2002)	✓			✓					✓	
15	(Grewal et al., 1999)	✓			✓					✓	
16	(Smith, Agrawal, & McIntyre, 1998)	✓			✓				✓	✓	
17	(Staples & Swerdlow, 1978)	✓			✓			✓	✓	✓	

Note : RM: Retail Management ; CM: Category Management ; PM: Price Management ; MM: Merchandise Management ; AM: Assortment Management ; CS: Customer Service

2.2. Theoretical Background

2.2.1. Merchandise Budgeting

Managing supply chain is the core to a retailer's business since one of the important value additions a retailer does is moving the product from the point of origin (manufacturer) or the other source (Supplier) to the point of consumption (Customer).

In the retail supply chain, merchandise budgeting is a part of the plan in the merchandise management. Retail supply chain processes are shown in Figure 2.1. These processes are broken down into four major categories:

- a. Merchandise management process
- b. Buying or sourcing process
- c. Move or logistic process
- d. Sell or customer service process

Each of these can be broken down into a set of planning and execution processes.

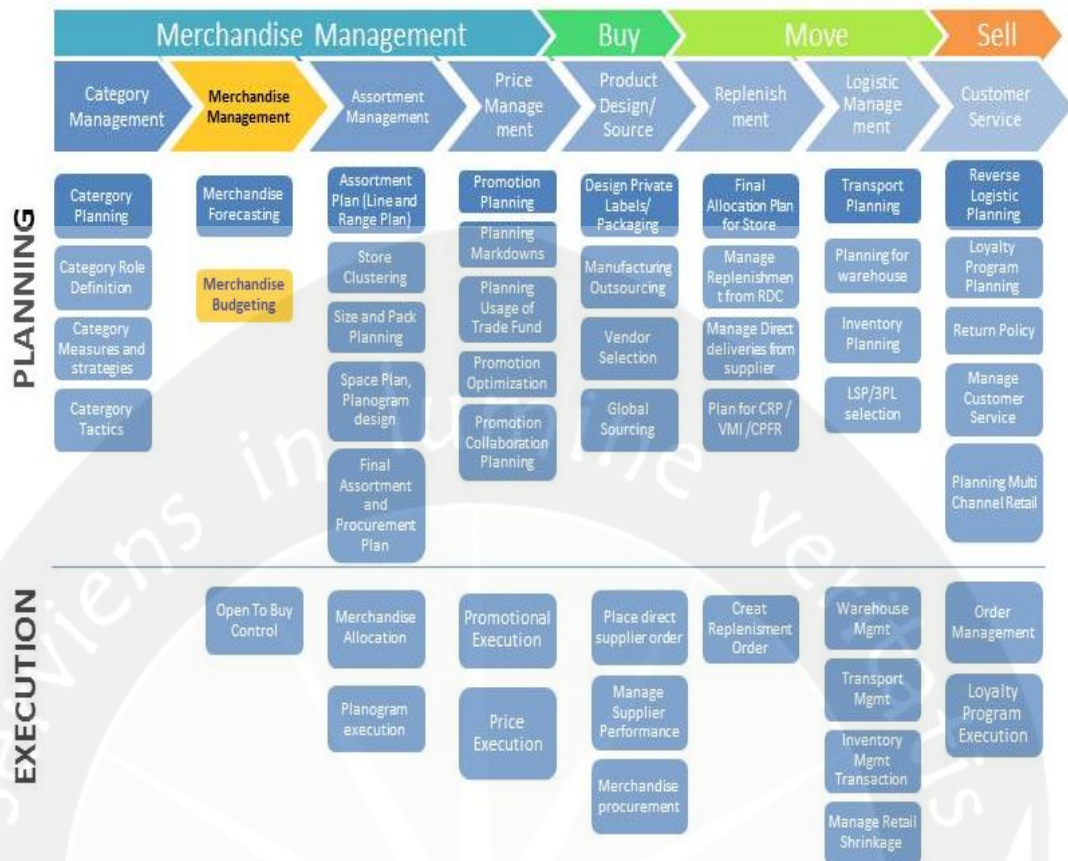


Figure 2.1. Retail Supply Chain-Planning and Execution Elements

In the merchandise management process, there are merchandise forecasting, merchandise budgeting, and Open to Buy (OTB) control. These processes help the retailers in long term forecasting of merchandise requirements, financial budgeting process and the process of budget control, i.e. Open to Buy. The processes are as follows:

- a. Forecasting, it estimates the merchandise requirement for the future.
- b. Merchandise Budget, it is a financial estimate regarding how much money the retailer can invest in procurement of merchandise to achieve his business targets.
- c. Open to Buy (OTB) control, it is a merchandise control system that controls merchandise procurement in a way that stock availability at retail store at any point matches the planned sales as closely as possible.

Based on the problem of this research, the researcher wants to conduct the merchandise budgeting, Merchandise budgeting is a retailer’s job to plan financial business, whether in dollar or rupiah. Some of the parts in merchandise

budgeting include the amount of sales to make, the amount of stock to hold for making intended sale, and the amount of merchandise needs to procure additionally for the same by the retailer. The planning for markup, and retail reductions, are also parts of this process. Though merchandise budgeting specifies how much money can be spent each month to achieve the sales, margin, inventory turnover, and GMROI objectives, it is not a complete buying plan and it does not indicate what specifies SKUs to buy or in what quantities. Typically, the budgeting exercise is done for the next six months.

Once the merchandise budgeting plan has been created, it gives the buyer an indication of the next merchandise requirements for the next six months or more, the amount of purchases that needs to be made at the beginning of every month and the amount of inventory needed in each month. The buyer should buy the products/ merchandise required.

2.2.2. Traditional Retail and Modern Retail

Retail business can be classified based on the shape, the size, the level of modernity, and others. So, it will be found in various types of retail. However, in general terms only, the retail business is narrowed in-store Retailing, i.e. retail businesses, which uses the store to sell the merchandise. This can be observed from some discussions about retail business issues, both in mass media and discussion forums. Unconsciously, the discussions focus on the types of retail like stores that run retail business.

Apparently, the government regulation of retail business is in the common way of thinking. It is because the regulation tends to use an approach that limits the retail business to in-store retailing only. It even covers the limitation on the traditional retail and modern retail. Presidential Decree No. 112 Year 2007 about The Management and Development of Traditional Markets, Shopping Centers and Modern Stores set the limitation of traditional markets and modern stores in Article 1 as stated below:

- a. Traditional Market is a market that is built and managed by the Government, Local Government, Private, State Owned Enterprises and Regional Owned Enterprises, including cooperation with the private sector with businesses such as shops, kiosks, stalls and tents owned / managed by small traders, medium, governmental organizations or cooperatives with small-scale

enterprises, small capital and with the process of buying and selling merchandise through bargaining.

- b. Modern Store is a store with self-service system that sells various kinds of goods at retail in the form of Minimarket, Supermarket, Department Store, Hypermarket Grocery and Wholesale form. The limitation of Modern Store in terms of sales floor area, as emphasized in Article 3, is as follows: a) Minimarket, less than 400 m² (four hundred meters square); b) Supermarket, 400 m² (four hundred square meters) to 5,000 m² (five thousand square meters); c) Hypermarket, over 5000 m² (five thousand square meters); d) Department Store, over 400 m² (four hundred meters square); e) Grocery, above 5,000 m² (five thousand square meters).

The limitations of traditional markets appear to be less represented on the notion of traditional retail as a whole because it is in contrast with the restrictions of modern stores detailed from the shape of the smallest (mini) to the largest (hypermarket), limit traditional markets only explain their large place (or quite extensive) to localize stores, kiosks, and patches, as business premises belonging to the traders and the public to buy goods of daily needs.

Therefore, when using the shape-based classification of retail in assessing competition between traditional retail and modern retail, so evenly matched with restrictions modern store which is detailed in various sizes, it should be added retail type small sizes in traditional retail shops, kiosks and stalls are not in the market place.

The competition between traditional retail and modern retail occur between types of retail in approximately the same size: minimarket with shops and stalls in the vicinity: traditional markets to supermarkets or hypermarkets.

The three types of modern retail: minimarket, supermarkets and hypermarkets, have the same characteristics in the sales model, which is conducted in retail directly to the final consumer by means of self-service. It means that buyers are taking their own goods from the shelves of merchandise and pay at the cashier. Another similarity, the traded goods is a wide variety of household needs including daily necessities. The differences among the three, located in the item number and in the type of products traded, in the business floor area and parking, and in the asset needs.

2.2.2.1. Characteristic differences between Traditional and Modern Retail

(Tambunan et al, 2004) divides the retail business into two (2) categories: traditional retail and modern retail, which illustrates the difference between the two as showing in the Table 2.2.:

Table 2.2. Characteristic of Modern Retail and Traditional Retail

Classification	Modern Retail	Traditional Retail
Product Line	<ul style="list-style-type: none"> a. Specialty Stores b. Convenience Store c. Supermarket d. Convenience Stores e. Shop Super, Combination, and Markets f. Hyper g. Discount Stores h. Reseller Discounts i. Space Sellers Catalog 	<ul style="list-style-type: none"> a. Mom & Pop Store b. Mini Market
Ownership	<ul style="list-style-type: none"> a. Corporate Chain Store 	<ul style="list-style-type: none"> a. Independent Store
Use of facilities	<ul style="list-style-type: none"> a. Modern payment tools (computer, credit card, auto-debit) b. Air conditioning, escalators / lifts 	<ul style="list-style-type: none"> a. Payment Instruments Traditional b. (Manual / calculator, cash) c. The stairs, no air conditioning
Promotion	<ul style="list-style-type: none"> a. Yes 	<ul style="list-style-type: none"> a. No
Finance	<ul style="list-style-type: none"> a. Recorded and can be Posted 	<ul style="list-style-type: none"> a. Not necessarily recorded and not published
Labor	<ul style="list-style-type: none"> a. Many 	<ul style="list-style-type: none"> a. A little bit, usually family
Operating flexibility	<ul style="list-style-type: none"> a. Not flexible 	<ul style="list-style-type: none"> a. Flexible

Source : Tambunan, 2004

Based on the characteristic of modern retail and traditional retail, the classification of the differences are 1) product line, 2) ownership, 3) use of facilities, 4) promotion, 5) finance, 6) labor, and 7) operating flexibility. The product lines in traditional retail are Mom & Pop store, and minimarket. The ownership is independent store. The uses of facilities are payment instrument traditional, cash, and no air conditioner. There is no promotion, and not necessarily recorded the finance. The labor is a little bit, usually family, and the operating flexibility is flexible.