

CHAPTER 1

INTRODUCTION

1.1. Background

Retail is one example of business that can be found everywhere. Retailing is defined as the sale of goods and services to the ultimate consumer for personal, family, or household use (Cox & Brittain, 2004). Many people are defining the terms of “Retailing” and “Merchandising” are synonymous, but they are not. Retailing includes all the activities that are necessary to sell goods and services to the final consumer. While, Merchandising is only one of these activities that focused on the planning and control that involve in the buying and selling of goods and services to help the retailer realize its objectives (Dunne et al., 1992).

The typical large retail organization has six major subsystems in order to running the business. Each of the major subsystems specifically has to solve the problem related to merchandising, financial control, publicity, human resource management, branch stores, and operations. Merchandising is the primary subsystem of the retail store, while the other subsystems comprise the support services necessary not only to maintain merchandising division, but also to make the merchandise assortment seems more convenient for the consumer (Risch, 1991).

Merchandising is the process of acquiring goods or services, and makes them available at the right place, time, price and quantity, to the end customer. Merchandising gives benefits for the customer as well as the retailer. For the customer, it increases the choice available and reduces the possibility of a stock-out. While for the retailer, it enhances the possibility of the right assortment of goods, with an adequate depth to be available at stores and this increases the possibility of better inventory turnover and an increased chance of sales (Ray, 2010).

Merchandising consist of planning and control. Merchandise planning can be distinguished to pre-season planning and in-season planning where merchandise budgeting can describe the pre-season planning and OTB can describe the in-season planning (d’Avolio et al., 2015). Merchandise budgeting is an exercise where the retailer plans in financial term about the amount of stock he needs to hold for making the intended sale and the amount of merchandise he needs to

procure additionally for the same as well as the planning for markup, monthly reduction, etc. While, Open-to-Buy is a merchandise control system that controls merchandise procurement in a way such the stock availability at the retail store at any point, matched the planned sales as closely as possible and ensures that the planned closing stock levels at the end of the period is not exceeded (Ray, 2010).

Toko Dus dan Plastik Sidi is one specialty store that sold the disposable products for packaging and cutlery. This retail was established in 2016. The location of this retail is near Sentolo Market. The customers of the store are usually the people that live around there and sells food at the market and also many owners of restaurants there. The customers also usually people that run catering business and needs boxes and plastics to package the foods.

Recently, *Toko Dus dan Plastik Sidi* does not have merchandise planning. In the process of acquiring goods, this retail buys the products from the supplier based on the owner intuition. Therefore, the retail often purchases the products that not sold often and buys the products again every time the salesmen come as a routine. Furthermore, the owner usually buys products that offer by the salesman who comes to the store and offers their new products, in large quantity without considering if the products will suitable with the customer needs or not. These cause the excessive stock for the unsold products and the unsold products become pile up at the store inventory. Because of the excessive stock, the retail facing the financial loss regarding to the inventory cost and the low return on investment.

Some of the Suppliers in *Toko Dus dan Plastik Sidi* are another retails that has the distance of 16 km until 20 km. Therefore, when purchase the products, *Toko Dus dan Plastik Sidi* has to spend the ordering cost in form of fuel cost. For some products that usually purchase from the other retail as the supplier, the purchasing process is done in the small quantity because the owner buys the products just when the owner feels the products are almost out of stock. This cause the ordering cost becomes higher. Whereas, suppliers will provide free shipping if *Toko Dus dan Plastik Sidi* buys in large quantity.

In retail, merchandise planning is the starting point in managing the merchandise. For the inventory in the retail, controlling the merchandise inventory is start with decide the amount of money can be invested in inventory (Dunne & Lusch, 2008). Therefore, in managing the problem of excessive stock that cause no return on financial resource and decreased profit, as well as the high ordering cost problem,

the owner of *Toko Dus dan Plastik Sidi* has to have merchandise planning through merchandise budgeting that gives the buyer indication of the net merchandise requirements for the next six months, the amount of purchases that need to be made and the amount of inventory needed in each month. Merchandise budgeting is not a complete buying plan and does not indicate what specific SKUs to buy or in what quantity. Therefore, open to buy has to conduct to ensure that there is a control on the function of merchandise buying. Meanwhile, the category management also needs to be done in order to conduct open to buy and data collection of the stock.

The focus of the study in this thesis is to help the owner to solve the problem regarding excessive stock of the unsold products and high ordering cost through the merchandise planning that consist of the calculation of merchandise budgeting and open to buy. This thesis also focuses in the process of category management in order to simplify the process in calculating Open-to-Buy and data collection of the stock.

1.2. Problem Formulation

According to the background, the problems that faced by *Toko Dus dan Plastik Sidi* are as follows:

- a. Excessive stock due to the purchase of the unsold product that done regularly and the purchase of the new products offer by the sales without considering the customers need.
- b. High ordering cost due to the purchasing process that done in the small quantity.

1.3. Objective

According to the background, the aim of this research is to conduct merchandise planning through the calculation of merchandise budgeting and Open-to-Buy as well as the design of category management to help the owner in the process acquiring products for the next period.

1.4. Scope and Limitation

The scope and Limitation of the research as follows:

- a. The observation is conduct in *Toko Dus dan Plastik Sidi*
- b. Calculating the Merchandise Budgeting for the month January to June 2019.

- c. Designing the management category based on the list of product that sold in the store and make the data of stock for each product (Stock Opname).
- d. Calculating open to buy from January to June 2019 based on the management category result.

