# CHAPTER 1
# INTRODUCTION

## 1.1. Background

Retail is a business activity related to the sale of goods and services for the use of individual, family, or household use (Berman *et al.*, 2018). The retailer can be called as the last chain in the distribution channel because it directly sells goods and services to the final consumers. Example of retailers are Walmart which is famous in the United States for its number of store in the United States reached more than 5000 stores in 2015 while in Indonesia people are familiar with Indomaret which can be found easily almost in every highway.

Retailers have four major categories, those are merchandise management processes, buying or sourcing processes, logistics processes, and sell or customer service processes (Ray, 2010). Merchandise management processes include on how the retailer manages the procurement process. According to Ray (2010). There are four elements in retailing, those are Category Management, Merchandise Management, Assortment Management, and Price Management. Merchandise management is important and is planning for the retailer.

Category Management will divide products into several groups of categories which have the same characteristics. The absence of category management will make retailers get products that will only benefit manufacturers. For example, manufacturers will ship goods with brands that they think are good and sell, when in reality the retailer is not. With the category management, manufacturers can recommend items that are in demand and good to retailers that will make retailers increase sales as well.

Merchandise management will help the retailer in forecast products, calculate financial budgeting and budget control. Forecasting will estimate the needed products for the next period. Merchandise Budgeting can be called as financial budgeting considering on how much to spend for procurement. While Open-to-Buy Control (OTB) will be a controller in the procurement process so that stock availability will be matched with planned sales as close as possible.

Merchandise management or merchandise planning can be grouped into two main activities, pre-season planning and in-season planning (Bandinelli *et al.*, 2015). Pre-season and in-season planning will assist retailers in managing their merchandise carefully. As its name, pre-season planning is defined before the sales. Merchandise budgeting is defined in pre-season planning, retailers will have their own planned purchased amount for the next period. In-season planning, on the other hand, will keep the harmony of the planned amount of stock and planned sales. OTB will be appropriate for in-season planning.

Merchandise planning will help the retailer in inventory so that the inventory turnover will be high and actual sales will match with planned sales. Retail which does not have proper merchandise planning will have difficulty in replenishing their products, bad inventory turnover, and planned sales that do not meet the actual sales.

Retail X sells consumable goods such as foods, drinks, toiletries, and other similar stuff. As a retailer, Retail X need to provide goods for customers. According to Utami (2014), there are two types of retailers, those are a modern and traditional retailer. Modern retailer usually can be distinguished with its customer loyalty program or a membership card, its payment method usually can be by cash or using banking card like credit card or debit card, besides modern retailer does not accept any loan, the products sold are always selected brand from selected supplier, modern retailer also has good recording data of sales, purchased, and others. Retail X can be categorized as traditional retail because it has characteristics like accepting the loan, fewer sales recording, no brand and supplier selection, and poor maintaining in purchased products (Utami, 2014).

The character of traditional retail which is not having appropriate planning for the amount of stock and also purchased goods leads Retail X for having poor forecasting purchased for the next sales period. It does not have proper planning of the amount of money that needs to spend and exact products need to be purchased each month. The unplanned goods purchased can be happened since no forecasting from the historical data.

In July 2015, Retail X made a purchased of an item which did not make any selling from July 2015 until February 2016. The item is Teh Gunung Mas.

Retail X made a purchased of 2000 pieces of Teh Gunung Mas. Moreover, in July 2015 also, Retail X made a purchased of Penyegar Jeruk Sari Ayu, although this product did not make any selling. The purchases made can actually be transferred to products with high sales percentages.

Then, there are also purchases that are not based on any product that is in demand. For example, in October 2015. The best-selling product is Anker beer, but the most purchased product is Happy Dent gum. Events like this occur in more than two months.

In order to reach the definition of merchandising, merchandise budgeting and open to buy control are suggested to be done to solve this problem. Merchandise budgeting defined as a planner in financial terms for the amount retailers is going to spend for procurement (Ray, 2010). This is usually done for the next six months. However, merchandise budgeting is not the real buying plan because it will not indicate until the SKUs or stock keeping units.

On the other hand, open-to-buy is important and needed to be done in this case. It will be a controller for the retailers to make a procurement which will have the right stock availability and meet the planned sales as tight as possible (Ray, 2010). In short, open to buy is in the form of the amount that will guide the retailers in purchasing goods without exceeding the already existing merchandise budgeting. Retails define success as how well they provide the availability of goods for the customers in the right quantity, time, and price.

## 1.2. Problem Formulation

Based on the background, a problem raised in Retail X is unplanned purchased goods. Retail X does not have the monthly planned for budgeting and purchased goods.

## 1.3. Objectives

The objectives that can be taken from the problem formulation are making category management and calculating the open-to-buy for better spending money in the future.

### 1.4. Scopes and Limitations

The scopes and limitations of the thesis are as follow:

a.      The observation is conducted in Retail X

b.      Sales data from July 2015 up to February 2016

c.      Merchandise budgeting from July 2015 up to February 2016

d.      The monthly reduction for each category assumed to be not defined