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Strategic Management of General Merchandise

by
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To provide input for a food industry training program on the Strategic Management of General Merchandise, a cooperative research project with eighteen members of General Merchandise Institute was conducted during 1975-76.[1] Forty-six supermarkets with weekly sales ranging from $20,000 to $150,000 and representing all regions of the United States participated in the study. The research activity focused primarily upon quantifying product performance data and monitoring customer shopping activities relative to General Merchandise. This report summarizes only a small portion of the research results.

Supermarket general merchandise products are defined to include all nonfood items that have traditionally and historically been primarily associated with nonfood retailing organizations such as drugstores, hardware stores, department stores, etc. The general merchandise department is further divided into two major sections: health and beauty aids (HaBa) and home wares (HoWa).

Research Results

Product Performance: Item product performance for all general merchandise products was tracked in some 21 supermarkets across the country. Individual item data were then aggregated into product category, total section, and total departmental data. Some of these aggregated results are summarized below:

Performance Criteria	HaBa	HoWa	Total G.M.
Percent Total Sales	56.3%	43.7%	100.0%
Percent Gross Margin	23.7%	33.5%	28.0%
Percent Gross Profit Dollars	47.7%	52.3%	100.0%
Percent Inventory Investment	43.4%	56.6%	100.0%
Yearly Inventory Turnover	8.3	4.4	6.2
Gross Return Inventory Invest. (Weekly)	5.1%	4.3%	4.7%
Percent Space Occupied	25.2%	74.8%	100.0%
Weekly Sales Per Square Foot	$5.13	$1.34	$2.30
Weekly Gross Profit Per Square Foot	$1.22	$0.45	$0.69

--A relatively small number of HaBa and HoWa items are the major contributors to departmental sales and gross profits:

% Items	% Gross Profit Dollars HaBa	HoWa
Best 10%	35-40%	55-65%
Best 20%	55-60%	70-80%

--A relatively large number of general merchandise items have very small unit sales and are quite insignificant from the standpoint of their direct contribution to departmental sales and profits. For example, one-half of the HaBa items

contribute only 10-15% of the gross profit dollars while the poorest 50% of the HoWa items account for only some 4-7% of HoWa gross profit dollars. Furthermore, the percent of departmental items selling less than one unit per week in HaBa is 40-50% while it is 50-55% for HoWa. The percentage of items selling less than two units per week is 75-85% in HaBa and some 75-80% in HoWa.

--Based upon product performance data most general merchandise departments carry some 10-25% too many items.

--Most general merchandise departments have not achieved an appropriate space allocation among products and product categories.

--Most general merchandise departments have excessive inventory levels when compared to the sales volume generated.

--Industry data tend to overstate the sales distribution of the general merchandise department for many independent supermarkets.

--In spite of beliefs that supermarketing is a turnover business and departments with low turnover cannot therefore be profitable, departmental profit and loss data from over 25 supermarkets indicate that general merchandise (even with total store distribution of only 2.5-5.0%) generates some 25-40% of total store net profits.

Customer Shopping Activities: Thousands of shoppers were observed via customer shopping pattern analysis with special attention focused upon their shopping activities relative to HaBa and HoWa sections of the supermarket. These observations supported many previous research findings regarding how customers shop in self-service environments. In addition some specific customer shopping observations related specifically to general merchandise include:

--In most supermarkets less than 40% of the shoppers pass down the general merchandise aisles. In many food stores this percentage is 30% or less.

--Shoppers pass more HoWa products when HoWa sections are integrated throughout the grocery aisles as contrasted to layouts utilizing segregated HoWa departments.

--On a typical supermarket shopping trip 25% of the shoppers buy general merchandise items while 75% of the shoppers do not buy any general merchandise products.

--At least one HoWa item is purchased by 15% of the shoppers while twelve percent of the shoppers purchase at least one HaBa item.

--Multiple HoWa items are purchased by four percent of the shoppers while two percent of the shoppers purchase multiple units of HaBa items.

--Both HaBa and HoWa items are purchased by four percent of the shoppers.

Summary and Implications

This research study of general merchandise in supermarkets has particular significance for at least three reasons. First, it combined the important management areas of product performance and customer shopping activities in one study. Second, it quantified for the first time industry facts by item, product category, and total department relative to such important retail product performance criteria as inventory investment and turnover, display space occupied, and sales and gross profit dollars generated per foot of display space. Third, it provided

significant input for the development of a comprehensive training manual for food distribution center and supermarket management on the "Strategic Management of General Merchandise."

This additional information on the status of general merchandise in supermarkets has substantial management implications for personnel at all levels of the distribution system. These data suggest that many management teams have a need to reexamine their policies relative to such important merchandising considerations as product variety, display space allocation, layout, departmental location, inventory levels, etc. Furthermore, for the first time an extensive general merchandise training program is available to all industry segments, including manufacturers, distribution center personnel, brokers, and retailers, that can be instrumental in improving the sales and profitability of general merchandise departments in supermarkets.

Footnote

[1]General Merchandise Institute, a division of NAWGA, provided the financial support for this research study.

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MEETING TRAINING NEEDS OF CONVENIENCE STORE INDUSTRY

by
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The National Association of Convenience Stores offers the following programs.

Institutes

Supervisory Development Institute Program: Develop personal skills in the areas of motivation, delegation of responsibility, time management, effective interviewing, conducting store managers meetings, communication techniques, measuring store performance through MBO and effective planning and control methods. Practical application and action plans for implementation will be stressed.

Financial Management Institute Program: Identify the importance of financial management in the operations of a convenience store company. Teach the application of financial management concepts and tools to operations personnel. Integrating financial and nonfinancial concepts and using information for decision making. Emphasis is on decision making not accounting techniques or math.