



# VIRTUAL BUSINESS

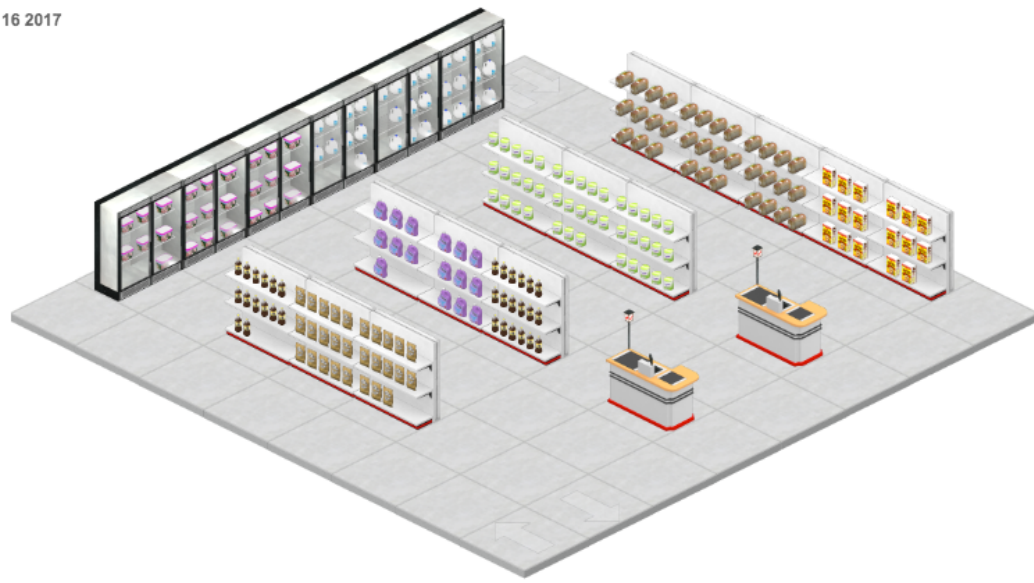
Retailing, Knowledge Matters

Standards: Culmination of Entrepreneurship, Management, and Marketing standards covered through the course of the year:

Essential Question:

What do I need to consider when opening and operating a retail business?

Mon Jan 16 2017



# PRODUCT

Explain the importance of product choices in retailing

Use surveys to determine most popular products

Be able to change product mix and interpret sales results

Manage product selection to achieve profit goals

- Product and Merchandise are synonymous
- **Marketable Items:** Attract customers to your store and are easy to sell. Examples would depend upon the type of store you operate.
- **Consumability:** Used by eating, drinking, or using \*Consumable products generate repeat business
- **Perishable:** items with expiration dates ex.
- a loaf of bread or vitamins

- **Seasonal Items:** Products typically purchased in larger quantities during a given period of time. Example- Frozen Turkeys in November
- **Price Points:** The typical price that goods are sold. Example- Ralph Lauren clothing would be said to have a High Price Point.
- **Transactional Selling:** Involves quick sales without attempting to build a significant long term customer relationship. More common with businesses that offer generic products. Example- Target and Stater Bros.
- **Consultive Selling:** Working with a customer to determine his or her needs. Example- The Apple Store or a car dealership
- **Big Box Retailers:** A large retail store whose physical layout resembles a large square or box. Big-box stores often can offer lower prices because they buy products in high volume.
- **How can small stores compete with big box retailers?**

6:00 AM Sun Jan 01 2017



## Place

location, location, location.....

Understand the concept of cost per square foot

Be able to compare amount and cost of space at different locations

Assess the types of customers around a given location

Assess potential locations given competitor locations

Choose a store location that will yield a profit

# PLACE

- Understand the concept of cost per square foot
- Be able to compare amount and cost of space at different locations
- Assess the types of customers around a given location
- Assess potential locations given competitor locations
- Choose a store location that will yield a profit



- **Business District:** An unenclosed shopping area developed without much planning and featuring a variety of stores
- **Trade Area:** A business's geographic surroundings, which provides most of its customers
- **Choosing a location consider:** Traffic, Convenience, and Visibility
- **Other Considerations:** Zoning Laws, Availability of Workers, Possibilities for Expansion

- Leasing a Building: Negotiating Rent Amounts
- 1. Fixed Rate Lease- Fixed monthly fee to lease the building. This type of lease is used least often. This is usually used in conjunction with one of the agreements below...
- 2. Percentage Lease- Based off a percentage of sales typically 7% above the fixed rate you pay monthly, usually after you reach a specified amount of sales. Typically rather large stores fall into this category or those with hefty revenue. \*With a Percentage lease your Fixed Rate Lease amount will decrease as your sales increase.
- 3. Triple Net Lease- The tenant or lessee pays the fixed rate plus 1. Property Taxes, Property Insurance, and Property Maintenance





# PRICE

Explain the relationship between price, cost, and margin

Explain how prices and sales volume is related

Find a price that maximizes profit by generated reasonable volume and reasonable margins

Define a "loss leader"

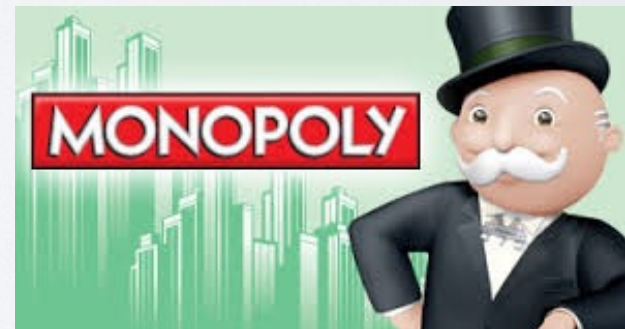
Set prices across all products to achieve a profit goal

- **Cost:** The amount paid to suppliers for merchandise
- **Margin:** The number you get when subtracting an items cost from its selling price.  
Example Cost of a pencil is \$0.10 Selling price is \$0.50 **Margin would be \$.40**
- **Law of Supply and Demand:** As the supply of an item decreases the demand increases.As demand increases price increases... Example- Zuzu Pets and and most recently in the past 3 years Twinkies



- **Loss Leaders:** Retailers sell a product for less than their cost to attract more customers to come into the store. Often times car dealerships use this tactic.

- **Market Share:** The percentage that a store has of the total sales in its trading area for that particular product type
- **Sherman Antitrust Act:** Prevents Monopolies and Price Fixing





## PROMOTION: TRADITIONAL MEDIA

Understand promotion as a key element of the marketing mix

Identify different types of promotion

Track revenue and expenses associated with promotional activities

Be able to compare efficiency of promotional campaigns

Choose promotional means to achieve business goals

- **Traditional Marketing: Involves Personal Selling and Print Media** such as Billboards, sales promotions through coupons, flyers, newspapers, magazines, and direct mail.
- \*A goal of a promotion they should specific and clearly stated.
- \*These forms are meant to enhance revenue and increase the store's image.
- **Promotional Mix:** The combination of the types of promotion a business uses.

- **Budget for a promotion:** Promotional budgets are typically determined by using a percentage of a business's net sales.
- **Bait and Switch:** Advertising a low-priced product in order to lure customers into buying a high-priced product.
- **The Federal Trade Commission:** The government agency in charge of enforcing advertising laws.



# PROMOTION: EMAIL

- Identify different sources of Email address lists
- Understand the importance of subject lines and offers in Email marketing
- Track and analyze Email response metrics
- Avoid spam reports by properly spacing Emails
- Use Email promotion to achieve profit goals

- Emails....A good way to promote your business?
- **Email Lists: 2 Ways to generate email lists**
- **1. Collecting Addresses on your own (Internal Lists)**  
**Advantages?**
- **2. Purchasing a list from a third party**
- **Advantages?**



- **CAN-SPAM Act of 2003:** Require "unsubscribe" links in all marketing emails
- **Hard Bounce:** An email returned because an address does not exist or has been closed
- What can be done to minimize this???
- **“Total Opens”** The count of recipients who actually open your marketing campaign's email message
- **Response Rate for Emails:** Even 1 % is considered acceptable... Why?

- **Loyalty Program: Any kind of marketing strategy that creates loyal customers**
- **Examples????**



## STAFFING, SELLING, AND CUSTOMER SERVICE

- Explain several different job functions within a retail store
- List the problems that can result from understaffing at each position
- Discuss why some retail establishments staff salespeople while others don't
- Understand the expense/revenue tradeoff of staffing decisions
- Adequately staff a retail store to achieve a profit goal

- **Staffing:** The selection and training of individuals for specific job functions, and charging them with the associated responsibilities
- **Staffing Level:** The number of workers assigned to jobs at a particular time
- **Equal Opportunity Employment Laws:** Protect employees from discrimination because of gender, race, religion, national origin, age, or disability
- **Employee Compensation Laws:** Determine minimum wages, the 40-hour work week, and overtime pay

# UNDERSTAFFING VS. OVERSTAFFING

## Understaffing

- Long Lines
- Shoplifting
- ???

How do you deal with it?

## Overstaffing

- High Labor Costs
- Each employee tends to be less productive
- ???

How do you deal with it?



## PURCHASING AND INVENTORY CONTROL

Explain why purchasing is essential to a retail business

Understand target inventory levels

Explain the tradeoffs between purchasing too much and too little

Set custom purchasing policies for rapidly expiring items

Manage purchasing for efficiency and customer satisfaction

- **Inventory, Merchandise, and Stock: Synonyms**
- **A Buyer for a company purchases merchandise for a business to sell**
- **“Open to Buy”**: The amount of money available for purchasing new inventory
- **A Vendor is a business that sells merchandise to retail stores for resale**

- A vendor sells merchandise to a retailer at a wholesale cost. The retailer then marks-up the cost of the product to the end consumer; therefore, making a profit.
- **Vendors must:** Deliver product on time with little to no damage. Each delivery must include an invoice.
- **Invoice:** Lists the items and quantities in a delivery



- **Inventory Control:** A position(s) in a business that ensures stock is in good condition, reviews expiration dates, and keep measure over stock turn-over.
- **Stock Turn-Over:** Measures how often stock is sold during a given time period.
- A good inventory control system should be a physical and in constant check (perpetual).



# MERCHANDISING

Define merchandising in a retail store

Identify items that are likely needs

Identify items that are likely impulse purchases

Identify items that are likely complementers

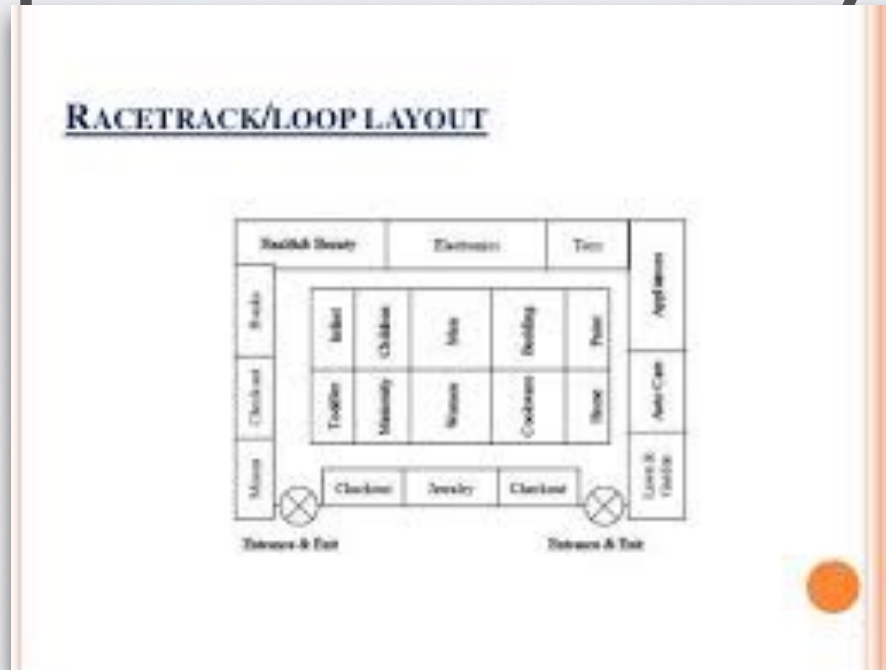
Describe strategies for placing needs, impulse items, and complementers

Use merchandising principles to improve the revenue of a business

- **Merchandising:** The activity of promoting the sale of goods at retail.
- **Needs: Examples??** Loaf of Bread
- **Staples: Examples??** Canned goods
- **Impulse: Examples??** Candy Bar
- **Complementary: Examples??** Computer Printer

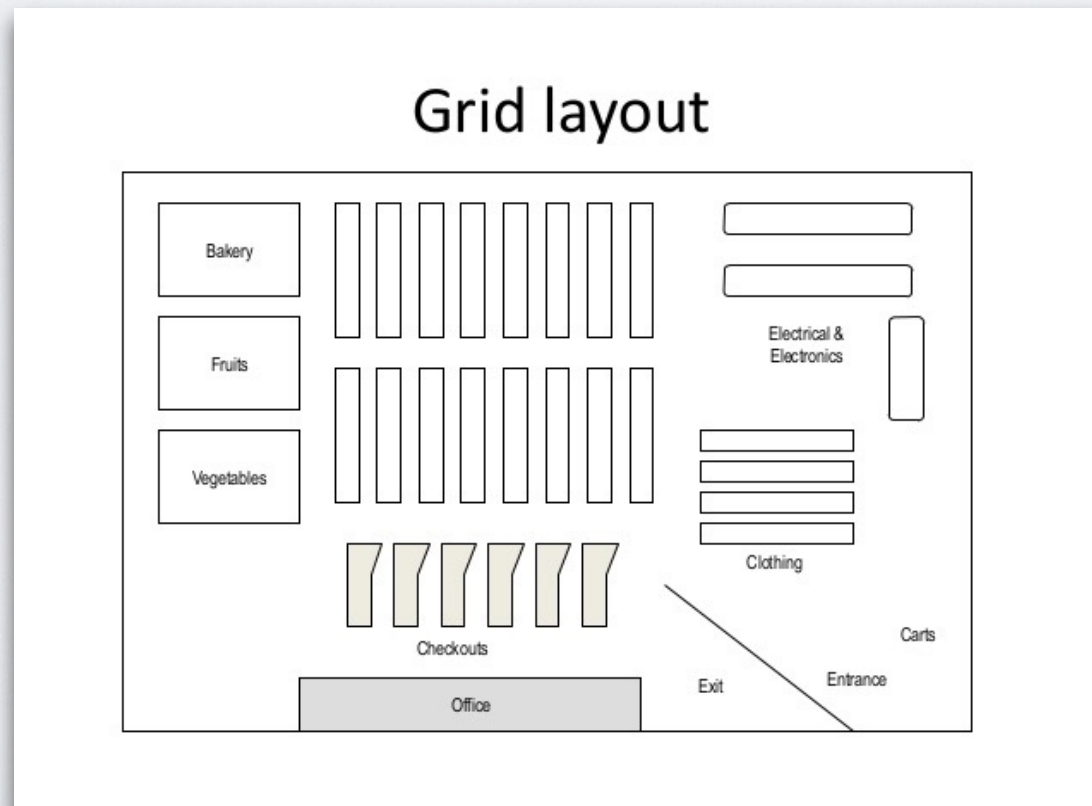
- **Types of retail store layouts:**

- **Loop**



- **Types of retail store layouts:**

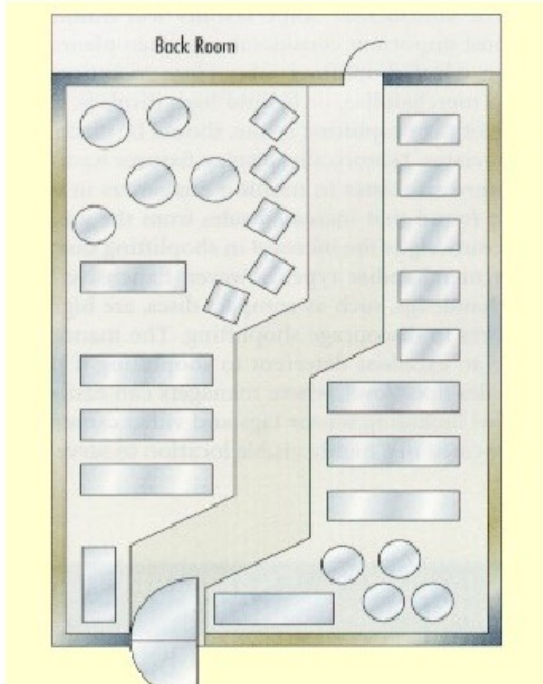
- **Grid**



- **Types of retail store layouts:**

- **Spine**

### Spine Layout



The diagram illustrates a spine layout for a retail store. A central aisle, labeled 'Spine', runs vertically from the front of the store to a 'Back Room' at the top. On both sides of this central aisle, various merchandise departments are arranged as rectangular blocks, branching off from the spine. The layout is shown in a top-down perspective with a light beige background and a yellow border.

- Variation of grid, loop and free-form layouts
- Based on single main aisle running from the front to the back of the store (transporting customers in both directions)
- On either side of spine, merchandise departments branch off toward the back or side walls
- Heavily used by medium-sized specialty stores ranging from 2,000 – 10,000 square feet
- In fashion stores the spine is often subtly offset by a change in floor coloring or surface and is not perceived as an aisle

- **Fixtures:** The primary purpose is to display merchandise
- **POP Displays:** Usually found near the front of the store and are provided by the manufactures. Example: Coca Cola stacking 12 packs to look like an End Zone during football season



# SECURITY AND RISK MANAGEMENT

Explain the importance of security in a retail business

Given different options for increasing security

Analyze the cost-effectiveness of a security system

Plan store security to achieve profit goals



- **Shrinkage:** The loss of inventory that can be attributed to factors including employee theft, shoplifting, administrative error, vendor fraud, damage in transit or in store and cashier errors that benefit the customer. Shrinkage is the difference between recorded and actual inventory.
- **Retailers loose over 40 Billion Dollars every year due to shrinkage!**
- Half of this shrinkage is due to employee theft- **Internal Theft**
- Normal shrinkage for a retailer is **1%-5%**
- Shrinkage is calculated after a **physical inventory** is taken
- **Shrinkage is based off of Book Value:** The amount of money inventory is shown to be worth in the business's records



# FINANCING AND BUSINESS PLANNING

Understand that most business require substantial financing (capital) to get started

Be able to estimate start-up costs for a business

Monitor cash levels to determine adequacy of financing

Extrapolate from a small business to a larger business when estimating financing needs

Acquire adequate financing to start a business while minimizing financing costs

- **What are the Start-Up Costs?** Answering this critical question of how much money it will take to get the venture started in a business plan. These are the costs associated with opening and operating a new business for 1 year.
- **You can have a great business idea and start strong, but run out of resources quickly if you do not estimate your start-up costs correctly.**
- Examples of Start-Up Costs: Inventory, Fixtures, Cash Registers, Computers, Inventory, Building costs, Marketing, Don't forget the cash-on-hand needed to operate for one year, etc....

- **Gathering the funds to open a business:**
- Usually the majority comes from your personal savings, family, and friends.
- Other options to fund your business idea..
- 1. Small Business Loans- **Principal:** The total amount of the loan. The loan agreement should always include the Principal, Interest Rate, and Payment Terms/Schedule
- 2. Venture Capitalists- Professional Investors. They usually require **Equity**, (part ownership) in the business in return for the loan.

- **Balance Sheet:** A summary of Assets and Liabilities of a business or an individual
- **Asset:** Any property that has value available to meet a debt or payment. Examples- Savings Account, Equipment, Office Furniture, Building, Stocks, etc...
- **Liability:** Legal debts a company or individual is obligated to pay. Examples- Loans, Mortgages, Accounts Payable, and other expenses
- **Net Worth:** The difference between Assets and Liabilities

# Balance Sheet

<b>Assets</b>		<b>Liabilities</b>	
Cash	<u>\$420</u>	Notes Payable	<u>\$100</u>
Accts. Receivable	<u>\$50</u>	Accts. Payable	<u>\$0</u>
		Tot. Liabilities	<u>\$100</u>
<b>Inventory</b>		<b>Owner's Equity</b>	
Raw Materails	<u>\$0</u>	Orig. Investment	<u>\$100</u>
Finished Goods	<u>\$0</u>	Retained Earnings	<u>\$110</u>
		Earnings Wk. Ending	<u>\$280</u>
Prepaid Expenses	<u>\$120</u>	Tot. Owner's Equity	<u>\$490</u>
<b>Total Assets</b>	<b>\$590</b>	<b>Liabilities &amp; Owner Equity</b>	<b>\$590</b>



# RETAIL MOGUL

Teams will be challenged to build a retail grocery business from the ground up. You must choose a location, design the store layout, staff the business, choose products to carry, set prices, and more. You'll start in the same city and pursue a specific profit goal. The class scoreboard is turned on so teams can compare their profitability to teams in the class.