



Procurement and supply chain in the retail sector

Guidance to key elements to consider when procuring for the retail sector.



This knowledge paper is supportive of Procurement professionals operating at managerial level of the CIPS Global Standard



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Introduction

This paper looks at some the differences and additional challenges that can be encountered when procuring in the retail sector compared to manufacturing, services or public sector.

Retail procurement will mainly focus on finished goods ranging from Fast Moving Consumer Goods (FMCG) to single purchase luxury goods. It can involve procuring from established brands or own branding goods to compete alongside the established brands.

The procurement strategy increasingly has to consider how this will work with an Omni channel shopping experience as customer expectations on availability increase.

These additional challenges have been split into 5 categories.

Supply chain

You will be at a different stage in the supply chain, but ethical procurement and good availability are still important.

- Closer to the end user – You will be closer to the end user in retail procurement than other procurement roles, therefore, a more customer centric approach is required. You may come across suppliers who are removed from their end user and not have a full understanding of what your customer base requires.
- Further down the supply chain – Being further down the supply chain means additional diligence and checks are required to ensure you are procuring ethically.
- Out of stocks and over stocks balance is really important – This can really swing the balance for the success of a business, if you are out of stock of something then it is likely your customer can find it elsewhere and may remain with the new company, so any money spent on attracting new customers will be wasted as it costs less to retain a customer than it does to gain a customer. If you are over stocked, you will be tying up valuable warehouse or shop floor space on dead stock as well as tying up cash that could be invested in new lines.

SRM

Having good relationship with the supplier can help give you the edge on your competitors in price and visibility.

- Price - You will not be the only person selling these items so being able to be competitive with price will be one of the factors that can differentiate you from your competitors. This is where good negotiation skills to secure a favourable cost price can assist in being both competitively priced and profitable.
- As a retailer you will often be an intermediary of brands – this means that a brand doesn't sell directly to the public, the public can only buy through a retailer. In this instance, it is important to ensure you are listed as distributor so consumers know about availability in their region. You may have to meet certain standards or have limitation on how you can sell these items as the manufacturer will want to protect their brand and image.
- Additional material - The manufacturer is likely to be a good source of marketing material such as how to guides and this is a resource that should definitely be utilised.

Internal stakeholder Engagement

Some of the negotiations and deals that are agreed can overlap with other departments so it is useful to gain an insight into how cross-functional retail procurement can be.

- Rebates – some suppliers will offer a rebate on the money you have spent with them based on units or values of sales over a set period of time. It could be based on reaching targets or by offering the prime spots to display their items. If these targets are met, then the finance department needs to be aware of this potential income and how it will be accounted for against the price of the goods.
- Marketing budgets – As a buyer, you have the potential to negotiate marketing income from a supplier in return for featuring a promotion of their products or brand. The offer may include but is not limited to, a discount on the inventory, subsidizing printing or advertising costs, incentives such as free gifts to the customer. Once the terms have been agreed, the marketing team will need to be provided with information on how to implement this.

Company strategy

You will need to ensure that the range of products brought into the company fit with company strategy and company image.

- Pros and cons of brand association – By selling a brand, customers will to a certain extent associate the values of that brand with retailers that sell them. Therefore, further consideration and research maybe required to make sure there are no negative outcomes that are likely to occur from being associated.
- You may also need to understand which brands are required to attract customers. Absence of these brands in your range may reduce your potential footfall.
- Own label development – if your competitors are selling identical products to you, then one of the things that can separate you is the development of you own brand of goods. This then offers the opportunity to be involved in product development and contract packaging.
- Good, better, best – it is likely that you will be catering for a range budgets and customer profiles so you may be required to understand pricing tiers and how the products fit into an economy, standard and luxury classification and also identify these gaps in the range.

Operations

Customers have increasingly higher expectations on their shopping experience and supporting the operations behind reaching these expectations may fall under the procurement remit.

- How to support Omni channel shopping experience for customer – Understanding how the company will make products available between different channels: buying from outlet, transferring between multiple outlets, click and collect and delivery to the customer address.
- Reverse logistics (Returns), Firstly, you will need to ensure you are acting within legislation designed to protect the consumer such as the Consumer Contracts Regulations 2014. You may wish to go beyond the minimum as part of offering outstanding customer service. You will also need to ensure returns are processed in a timely way as a long turnaround time will give a negative experience to the customer.

Conclusion

In retail procurement, you are closer to the end user and predominantly sourcing finished goods. You will need to collaborate with other departments to help deliver the Omni-channel shopping experience. Good product availability will prevent loyal customers shopping elsewhere and own brand product development will give you the point of difference. You will need to make decisions regarding the inclusion or exclusion of certain brands and ensure you offer a comprehensive range of goods if required to appeal to a large bracket of consumers.

Further Resource

Gov.uk – [Online distance selling guidance](#)

Gov.uk – [Accepting returns and giving refunds](#)

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