

**K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH,**  
**Vidyavihar, Mumbai- 400077**

**Program: PGDM RM (Batch2017-19), Trimester III**  
**Subject: Category Management and Franchising**  
**(End Term Examination)**

**Maximum Marks: 50**  
**Duration: 3 hours**

**Date: 29/03/2018**  
**Time: 10.30am to 1.30pm**

**Instructions:** i) Question no. 1 & 2 are compulsory.  
ii) Attempt Any Three from Q3 to Q6.  
iii) Use of simple calculator is allowed.  
iv) Cell phone calculator is not allowed.

**QUESTION 1**      Read the case and answer the questions given below:      **12 Marks**

**How Much for a Good Smell?**

For the past two Christmas seasons, Courtney's, an upscale gift store, has carried a sweet-smelling potpourri in a plastic bag with an attractive ribbon. Heavily scented with cloves, the mixture gives a pleasant holiday aroma to any room, including the store.

Two years ago, the mixture cost \$4.50 a bag. Courtney's (the only store in town that carried it) sold 300 pieces for \$9.50. Courtney's supply ran out 10 days before Christmas, and it was too late to get any more.

Last year, the manufacturer raised the price to \$5.00, so Courtney's raised its retail price to \$9.95. Even though the markup was lower than that in the previous year, the store owner felt there was "magic" in the \$10 (\$9.95) price. As before, the store had a complete sellout, this time five days before Christmas. Sales last year were 600 units.

This year, the wholesale price has gone up to \$5.50, and store personnel are trying to determine the correct retail price. The owner once again wants to hold the price at \$10 (\$9.95), but the buyer disagrees; "It's my job to push for the possible markup wherever I can. This item is sure seller, as we're still the only store around with it, and we had some unsatisfied demand last year. I think we should mark it \$12.50, which will improve the markup to 56 percent. Staying at \$10 will penalize us unnecessarily; especially considering the markup would be even lower than last year. Even if we run into price resistance, we'll only have to sell 480 to maintain the same dollar volume."

The owner demurs, saying, "This scent is part of our store's ambience. It acts as a draw to get people into the store, and its pleasant smell keeps them in a free-spending state of mind. I think we should keep the price at \$9.95, despite the poorer markup. And if we can sell many more at this price, we'll realize the same dollar gross margin as last year. I think we should buy 1,000. Furthermore, if people see us raising a familiar item's price 25 percent, they might wonder whether our other prices are fair."

**Questions:**

- a) What are the markup margin percentages which Courtney's gained, on each bag of Potpourri, for the last two years respectively?
- b) For the current year, which retail price would result in the highest margin?
- c) According to the owner, what are the other factors that should be considered? Are these factors relevant?
- d) If you are the final decision maker of the store, what retail price would you charge, and how many units would you order for the current year?

**QUESTION 2**

**8 Marks**

- a) A retailer buys items for \$50. At an original retail price of \$85, it expects to sell 1,000 units.
  - i. If the price is marked down to \$75, how many units must the retailer sell to earn the same total gross profit it would attain with an \$85 price?
  - ii. If the price is marked up to \$100, how many units must the retailer sell to earn the same total gross profit it would attain with an \$85 price?
- b) Find the final selling price for an item that cost Rs. 320, marked up by 25% and then, was marked down 40%, and subsequently marked up 20% and finally marked down by 50% for clearance.
- c) Distinguish between GMROI & GMROF.

**QUESTION 3**

**10 Marks**

Chalk out a Merchandising Hierarchy for **ANY TWO** of the below categories:

- a) Apparels
- b) Beverages
- c) Home Care
- d) Automobiles

**QUESTION 4**

**10 Marks**

Define Category Roles with suitable examples for **ANY TWO** retail stores:

- a) Crossword
- b) Globus
- c) Reliance Digital
- d) Big Bazaar

**QUESTION 5**

**10 Marks**

Define Franchising. Explain in detail the type of franchising model used by **ANY TWO** of the following Franchise's:

- a) My Kind of Cakes
- b) San Francisco Coffee House
- c) Martin Blaire
- d) Ferns N Petals

**QUESTION 6**

Write short notes on **ANY TWO**:

**10 Marks**

- a) Robert Blattberg's Model
- b) Category Captain
- c) Traffic Building Vs. Transaction Building Strategies
- d) Pricing Tactics

-----End of Paper-----