

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

Program: PGDM RM (Batch2016-18), Trimester III
Subject: Category Management and Franchising
(End Term Examination)

Maximum Marks: 50
Duration: 3 hours

Date: 06/04/2017
Time: 10.30am to 1.30pm

Instructions: All Questions Compulsory.

QUESTION 1 Read the case and answer the questions given below: **18 Marks**

Category Management for Cosmetics

Aloma, a merchandise and retail consultant has been approached by a small independent retailer Clare Stores in Byculla to help restructure some of his merchandise lines. The store is located in a residential area with two schools, two pre-schools, and three colleges close by. The store is typically visited by young women in the age group of 16-40. The store stocks cosmetics and also products like cards, gifts, slam / autograph books, stationery, imitation jewellery, bags, decorative pieces, etc. Cosmetics is a major category and, therefore, the whole first floor along with 3-4 sales associates is dedicated exclusively to cosmetics of various categories.

After a few visits to the store, Aloma goes through her notes on various categories of products in the store and the following data emerges:

- Lip Care: Lip stick, Lip gloss, Lip balms, Lip pencils, Lip primer, Lip conditioner
- Eye Care: Under eye care, Eyeliners, Eye make-up remover, Kajal, Mascara, Eye shadow, Primer, Pencils, Contact lenses, Lashes
- Skin Care: Nourishment creams, Sun protectors, Anti-tan packs, Exfoliators, Skin vitalisers, Moisturisers, Toners, Skin tightening creams and gels, Anti-ageing creams
- Face Care: Acne treatment, Face cleansers, Face freshners, Face packs, Fairness creams, Face wash foundations, Primer, Anti-wrinkle creams, Bleach creams, Bronzer, Powder
- Hair Products: Hair shampoos, Hair oils, Hair vitalisers, Hair colours, Conditioners, Anti-dandruff hair product, Hair-fall tonics, Natural products
- Nair Care: Nail colours, Nail gloss, Nail polish remover, Cuticle gel
- Hand Care: Hand scrub, Hand lotion
- Foot Care: Foot cream, Anti-odour gel, Foot scrub, Foot massage lotion, Foot

- salts, Cuticle care, Foot cleanser
- Body Products: Bath gels, Body cleansers, Bubble baths, Body toners, Bleach creams

In all the above products, there are brands like VLCC, MAC, Lakme, Biotique, Avon, Chanel, Clarins, Clinique, Christian Dior, Lancome, Maybelline, Nuetrogena, Oil of Olay, Revlon etc. Aloma finds that the key attribute driving product sales is the belief that the product enhances beauty, protects the skin and sales are driven by price, quality, brand name, effects on health, packaging, demonstrations, and sampling.

On the basis of her conversations with the sales staff and few regular customers, she has mapped the role that various products play in the store and the same is indicated in Table 1.

Table 1: Category Roles of Various Products

Destination	Preferred	Occasional	Convenience
Stationary	Gifts	Imitation Jewellery	Cards
Autograph books, Stickers, Tattoos	Decorative pieces	Bags	Cosmetics

The basis behind this mapping is that the store is the main store of choice in the area for fancy stationery, autograph / slam books and other things like stickers and tattoos. The main reason being it a store that has been around for like 30 years or so and many school children and people use the bus stop in front of the store to travel.

The store is the preferred choice in the area for gifts and decorative items. These items are the main items that contribute to the profits and have the fastest turnovers in the store. The store also has items like bags and imitation jewellery. But there are other stores in the area that have more assortment and choice when it comes to these items. Nonetheless, these also contribute significantly to profit margins.

The store is one-stop shop for cards and cosmetics in the area. Cards for all occasions are available. It also has the full first floor dedicated to cosmetics. There are 3-4 salesgirls who are very knowledgeable and even do makeovers, if necessary.

Aloma first decides to focus on cosmetics and maps a matrix, which is illustrated in Fig. 1.

Gross Margin	H	Face Care Nail Care	Lip Care	Talcs
	L	Skin Care Body Care	Hair Care Fragrances	Eye Care Hand Care
		H	M	L
		Sales Volume		

Fig. 1: Mapping the Cosmetics Category

The store sells its products at MRP. Over the past year, the sales percentage has grown about 20% or so. Profit is modest at about 12-15%. The operating expenses are not too high, the main reason being that the retailer owns the store, so there is no rental cost. Once in five years or so, he redecorates the store. His main expenses are electricity and the salaries of the salesgirls who sell cosmetics. The remaining staff members are his family members. Inventory turns for gifts and cards are about 12 times a year. Cosmetics have a turnover of about six times a year.

Some categories of cosmetics are directly sourced from the company distributors. Most other cosmetics are sourced from wholesalers in the market. Thus, the retailer is not too dependent of suppliers. The products are sold purely on cash basis, while most products are sourced on credit. Replenishment from suppliers is done fortnightly.

Questions:

- a) List down the strengths and weaknesses of Clare Store. Do you agree with Aloma's mapping of Category Roles that various products play in Clare Store? Give appropriate justification for your answer.
- b) The store owner wants to make Clare Store as the destination store for cosmetics category, for the young women in the area and adjoining areas. Map and recommend the various product categories to the Category Roles, according to you.
- c) Basis the matrix given in Fig. 1, help Aloma to map out the Category Strategies and Tactics for the Cosmetics Category.

QUESTION 2

6 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

9 Marks

Define Franchising. State and explain with examples the main types of Franchise.

QUESTION 4

8 Marks

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

- a) McDonald's
- b) San Francisco Coffee House
- c) VLCC

QUESTION 5

Write short notes on **ANY THREE**:

9 Marks

- a) Brand Vs. Category Management
- b) Scope of Category Management
- c) Category Captain
- d) Image Enhancing Vs. Turf Protection Strategies
- e) Category Tactics

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