

Buying

Buying is about Selling. Getting buying right involves purchasing products that will satisfy your customers needs and that will sell quickly at a good profit. Getting it wrong means buying products that customers don't want and that don't sell.

4 steps to effective buying

1. Plan

It is very useful to divide your customers into like groups, or 'market segments', so that you can identify their needs more accurately. It is then possible to determine who your typical (or target) customers are, and buy the products that they are likely to need (and will purchase). These segments may include:

- **Demographic** segmentation: This grouping is characterised by factors such as the customer's age, sex, marital status, disposable income and other variables.
- **Psychological** segmentation: This is based upon customers' attitudes, motivators and lifestyles.
- **Geographic** segmentation: This grouping is based upon where the customer resides and it may be important to understand which 'catchment' area your customer comes from. Primary catchment is within a 3-minute radius, secondary catchment is within a 10-minute radius and a tertiary catchment area is beyond a 10 minute radius.

When planning always remember these golden rules:

- Don't try to be everything to everyone. Stay focused.
- Plan your product range to fit with both your budget and the budgets of your targeted customer group.
- Allocate your budgeted buying dollars to each classification (a grouping of similar or related products).

2. Analyse

Analyse your total product range. You need to offer your customers an appropriate mix of merchandise. Merchandise groupings may include:

- **Best sellers:** These will contribute substantially to your total sales. Best sellers often change. They could be promotional or seasonal lines. They must always be in stock.
- **Basic lines:** These are the things that customers expect you to always have.
- **Promotional lines:** Used as a 'hook' to get people into the store. They should enhance, fit into your range and promote your image.
- **Sell-up lines:** Provide a logical sell-up from promotional lines. They usually carry a higher gross profit.
- **Seasonal lines:** These products have a short life span, so select carefully.
- **Associated lines:** These are the items that relate to your range and are your 'add-ons'.



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You should review your current merchandise and consider:

- Is there a balance within the range?
- Have you provided adequate choices - for instance brands, colours, styles, price points and quantities (sizes)?

3. Select

Supplier Selection: Select the suppliers of your merchandise carefully. Your suppliers need to:

- Be credible, professional and prepared to support you (perhaps through advertising and promotion).
- Be willing to support their products with warranties.
- Have proven reliability to deliver the goods in a timely manner.

Limiting suppliers to a preferred list may maximize your power to buy more productively (i.e. be eligible for discounts or special offers).

Product Selection: Consider these factors when choosing your products:

- **Quality** - does the quality fit your customers' expectations?
- **Price** - are the prices appropriate to your type of customer?
- **Delivery Time** - will this suit your overall retailing plans?
- **Discounts** - does the supplier offer incentive discounts?
- **Minimum Order Requirements** - does this suit my business?
- **Credit Terms** - are these terms viable for my expected stock turn?
- **Country of Origin** - this may be a consumer preference, or an issue with guarantee.
- **Credibility of Manufacturer** - will the warranty be upheld?

4. Review

Review your buying activities regularly and work for continuous improvement. It will be necessary to go back to the planning stage in order to cater to the changing needs and desires of your customers.

Tip: Use this fact sheet to place your buying policies under review in order to maximise your business profit.

When to buy

Best selling and basic demand lines should be delivered on a regular basis. This can improve stock turn rates. The more frequently you order, the less stock will need to be stored and the less cash will be tied up. However, you need to ensure that you have sufficient back-up stock for best selling, basic and promotional lines.

Be aware of quantity discounts that may be available and determine whether you can benefit from these without overstocking.



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How to purchase stock

Consider the methods used to pay for purchases. Ensure these methods are the most financially favorable for your business. Your accountant should be able to advise you on this matter.

Managing your buying involves managing your stock. Remember, take great care with your buying because there is the danger of over-ordering, which will result in tying-up available funds that may be better spent in other areas of your business.

Keys to managing stock

1. Know your stock-turn rates (i.e. how often you sell the stock – use actual sales data).
2. Devise a merchandising plan.
3. Determine who your customers are and what are their needs and expectations.
4. Determine the classifications of stock you will offer your customers.
5. Determine which products you are most likely to sell.
6. Develop budgets and targets.
7. Establish stock levels and ratios.
8. Conduct regular stocktakes - this will assist you to accurately determine your needs.

Further information

The following fact sheets provide further information on these issues:

- Manage your stock effectively
- Merchandising
- Selling tips