



8-1-1950

A Study of Retail Merchandise Control as Applied to Department Stores

William K. Spornitz

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A STUDY OF RETAIL MERCHANDISE CONTROL
AS APPLIED TO DEPARTMENT STORES

A Thesis
Submitted to the Graduate Faculty
of the
University of North Dakota

by

William E. Spornitz

In Partial Fulfillment of the Requirements
for the Degree of
Master of Arts in Commerce
August, 1950

This thesis, offered by William E. Spornitz, as a partial fulfillment of the requirements for the Degree of Master of Arts in Commerce in the University of North Dakota, is hereby approved by the Committee under whom the work has been done.

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ACKNOWLEDGMENTS

The writer acknowledges his indebtedness to W. E. Davenport, Head of the Marketing Department of the University of North Dakota, for the assistance and the many valuable suggestions he had given in the preparation of this thesis.

The writer is also indebted to managements of Bloomingdales, Frederick and Nelson, Marshall Field and Company, Mandell Brothers, Inc. and J. L. Hudson Company for the information they forwarded with regard to retail merchandise control.

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CHAPTER I

INTRODUCTION

The increasing tempo of business activity, both in goods handled and services performed, has resulted in the need for a method of merchandise control that will do more than indicate once or twice a year what the net profit of the business is. The demand for larger assortments of merchandise has led to the establishment of inventory records that show at all times what goods are in stock and in what quantities and colors. This need has evolved into what is now known as the Retail Method of Merchandise Control and this form of control is the basis for my study.

Purpose

The purpose of this study is to broaden my knowledge of the principles involved in retail merchandise control so that I may evaluate the merits and demerits of the method. It is hoped that future students of merchandising will find the study helpful in understanding the basic principles underlying the retail method of merchandise control. The writer feels that the cursory study that is now given this subject in merchandising courses will be supplanted by courses specifically devoted to merchandise control in retail establishments.

Scope

The study will cover the principles involved in setting up the retail method of merchandise control and will include specimen forms of department store operations. The text of the study will include examples with explanations and will show how the intelligent use of good records can aid the management of a retail store in the successful operation of the business.

Source Material

The sources for the material in this study are the works listed in the bibliography as supplemented by material sent by some of the leading department stores of the country.

CHAPTER II

HISTORY OF RETAIL MERCHANDISE CONTROL

"Retail accounting is as old as retailing itself. Some of the earliest known written records, the papyri of Egypt and clay tablets of Babylonia, show business accounts of dealers and others."¹ Even primitive people had their methods of keeping records. Accounts receivable were kept on a stick which was notched as evidence of a sale on account. When the sale was paid for the notch was shaved off.²

There has been much progress since the primitive days. The evolution of the double-entry bookkeeping system by the Italians during the late middle ages was a great step toward more accurate and scientific record keeping. The original Day Book, journal and ledger which were thought to be the only records needed have long since been supplanted by special journals, sales records, purchase register and others which simplify the task of keeping orderly records. Some of the factors that have contributed to the improvement of accounting methods are:³

1. The rapid rise of chain and department stores which have inaugurated detailed systematic accounting records and from which retailers have learned much about the benefits of good accounting.
2. The introduction and use of scientific management with its emphasis on records and use of cost accounting as a means of direction and control of operations of the business.

¹ Paul H. Nystrom, Retail Store Operation, Ronald Press Company, New York, 1937. pp. 524.

² Nystrom, op. cit., pp. 524.

³ Nystrom, op. cit., pp. 527.

3. Federal and state tax laws which have made the keeping of accurate records mandatory.

The institution of departmentization has become recognized as an essential factor in the establishment of effective accounting control. By departmentization, stores may allocate expenses on some basis and thereby allow a computation of profit and loss by departments which is an important step in merchandise control. It is quite logical that the modern tempo of business activity would cause retailers to look for methods whereby they could maintain closer control over the merchandise that they offer for sale. In the final analysis the merchandise is the backbone of retailing and any methods that will allow closer control over the merchandise will result in more efficient management. It must be remembered that the law of diminishing returns will operate in the keeping of records, however, and there will be a point where the keeping of detailed records will cost more than the increase in net profit. It is up to the management to evaluate any proposed detailed records in the light of the financial outlay involved and the return anticipated. We shall now turn to an examination of retail merchandise control and some of the problems involved.

CHAPTER III

PROBLEMS OF RETAIL MERCHANDISE CONTROL

Retail merchandise control may be defined as the adjustment of stocks to customer demand. In a broad sense the term embraces all of the functions performed by the merchandise division of a store. These are the following:¹

1. Market activity involving the development of resources, the study of style tendencies and the trading for price.
2. Control of stock, in terms of both dollars and units. This includes the control of markup and price, as well as quantity.
3. Sales promotion, involving publicity and the leadership of the sales force.

It is with the second function that we are concerned in this study. We shall now proceed to the analysis of how stocks are controlled under the retail method of inventory.

It would be well to ask ourselves at this point what the essential factors that govern the merchandise control plan in retail operations are.

They are:

1. Sales planning
2. Stock planning
3. The initial markup and reductions

Sales Planning

"It is almost universally conceded that the merchandise plan should start with sales. Of all the factors affecting profits, sales volume is probably the

¹ John W. Wingate, Retail Merchandise Control, Prentice-Hall, Inc., New York, 1933.

least susceptible to control, depending to a large extent on the momentum of good will the store has already developed.² It follows that sales being least susceptible to control are also the most difficult to forecast with any degree of accuracy. All well-planned merchandise control plans are built around a plan or budget; therefore sales must be estimated on the basis of past records weighed by outside and inside factors. Some of the more important factors to consider in the estimate of sales are:³

1. Past records of the business or similar businesses
2. Purchasing power of the area
3. Location of the store
4. Nature of the competition
5. Good will of the store
6. Store and departmental policy
7. Improvements in merchandise techniques
8. Promotion plans

Let us examine each of these factors a little more closely.

Past Records of the Business

Most business concerns have records that will show what sales volume has been attained in the past. If the yearly sales are plotted on a graph, a trend can be established for the business by drawing a line which follows the sales figures, the high and low points falling above and below the line. From this graph, an indication of increasing or decreasing sales may be obtained. It must be remembered, however, that in a period of price decline

² Wingate, op. cit., 1933, p. 81.

³ Wingate, ibid, pp. 115-154.

the sales volume in dollars would decrease while the sales in physical volume might remain the same or be even higher. If this is the case, the data would have to be adjusted by division of the dollar volume by an index of general price level. The resultant figures, when plotted, would give a more true picture of what has taken place with regard to sales volume.

Purchasing Power of the Area

The retailer may obtain data on purchasing power of the country which will give him some indication of what has happened in the past and enable him to project an estimate on what is likely to happen in the near future. The purchasing power of the area in which the business is located may be estimated. For example, stores located in an agricultural area will depend, to a large extent, for their volume on the crop outlook and farm prices. Similarly a store located in a manufacturing district will depend on the continued operation of the factories for its success. Indexes of production and wages can shed much light on this factor.

Location of the Store

Here we are referring to the location of the store within the shopping area. Every business area has what is known as the 100% location.⁴ This generally refers to the location which has the greatest amount of retail trade. Location near this store is desirable and is likely to result in a high proportional sales volume. Naturally the store owner cannot move to the choice location or perhaps not even near it, but he can watch very closely any change in the shopping district which might affect his sales volume.

⁴ Duncan and Phillips, Retailing Principles and Methods, Richard D. Irwin, Inc., Chicago, 1949, p. 112.

A good example of this movement was the movement of the uptown district of New York City which was estimated at the rate of a block a year.⁵ It is evident that the movement of the shopping center could substantially affect the sales volume of the store and must be taken into consideration when forecasting sales.

Nature of the Competition

A very important factor in the determination of sales volume is the competing business concerns within the city. Each retail area will support only a definite number of similar stores and, if there are many new businesses springing up, sales volume of all may be affected. It is interesting to note that competition may have a healthy effect on the sales volume in that the competition acts as an incentive to shopping. The average woman likes to "shop around" when making purchases and the existence of nearby competition may attract more shoppers to the district, thereby increasing the volume of both or all stores. One would assume that business welcomes competition by the congratulatory advertising that is done when a new business is established. It is safe to say that competition, while taking a share of the consumer dollar, may attract many more shoppers to the area, thereby increasing the total sales of all stores.

Good Will of the Store

In evaluating the sales potential of any retail store, the good will enjoyed by the store must be taken into consideration. The esteem in which

⁵ Wingate, op. cit., p. 127.

customers hold a store means much in the determination of sales volume. To be able to say that a store is well established simply means that it has the good will of the customers and can rely on the repeat trade which makes for a stable sales volume.

Store and Departmental Policy

The policy of the store and of the departments with regard to credit, markup, special sales and personnel have a direct effect on sales volume. The wise extension of credit can increase the sales volume and the use of uniform markup will create customer good will. The use of special sales, if not abused, will enable the store to move slow merchandise without becoming known as the clearance type establishment. The wise hiring of personnel will have a sales boosting effect and will reflect on the management in a favorable light. Store policy, wisely formulated, will have a definite favorable effect on sales volume.

Improvements in Merchandising Techniques

The use of merchandising techniques that enable a store to offer better assortments in fewer price lines will in general lead to higher sales volume. The joining of resident or cooperative buying offices, as well as the introduction and use of a merchandise control system, will lead to better balanced, fresher and more saleable merchandise.

Promotion Plans

The store that uses well-organized promotion will benefit from a maintained sales volume. Promotion is a study in itself, so here we will just say that the use of promotion to distribute sales more evenly over the

period will allow operating economics at the same time as it boosts the high spots and levels out the low spots.

Thus we see that to forecast sales volume with some degree of accuracy, one must consider all of the factors that enter into the formulation of that volume. Once these factors have been carefully weighed, the first step in planning can be taken, that of projecting the estimated sales for the ensuing period.

Stock Planning

The objectives of stock planning are:⁶

1. To provide varieties of merchandise that will satisfy the majority of the customers.
2. To provide quantities of merchandise that will insure having enough of each item stocked to satisfy consumer demand.
3. To insure that the stock of merchandise is not larger than necessary or, in other words, to insure that an adequate turnover is being realized thus conserving capital for other needs.

We shall look at each of these objectives for further analysis

Variety of Merchandise

The first aim in stock planning is to provide varieties sufficient to satisfy the majority of the customers. Some stores will wish to cater to the mass of the consumers and will accordingly stock low and medium priced merchandise selected to meet the needs of that segment of the shopping public.

⁶Wingate, op. cit., p. 155.

Others will want to appeal to the exclusive class of trade and will accordingly stock exclusive merchandise which carries a high markup and will carry fewer price lines, as well as fewer physical units. A complete stock must include a balance of staples, assortment merchandise and promotional merchandise. Staples include those items which should be regularly carried in stock and which the store should never be out of. Assortment merchandise includes those items which are needed to round out the staple lines at certain times. The period for which these items are needed will vary much more decidedly than the period for staples. Promotion merchandise is that merchandise which is needed for short periods of time, such as goods which are purchased to round out an assortment for a special sale. These are goods which will ordinarily not be demanded by customers, but which the store can stir up a demand for by promotion.⁷

Quantity of Each Variety

The ideal situation, with regard to quantity of variety, would be if the store never lost a sale because of being "out of stock" on a certain item. This seldom happens, but a store can minimize these lost sales by the use of a reorder system which insures the reorder of goods at a point that insures delivery before the stock is completely depleted.

Turnover

The third objective of stock planning is to provide a stock that is just large enough to meet demand, but not so large as to tie up capital in

⁷ Wingate, op. cit., p. 157.

quantities and styles that are not needed to meet this demand.

If variety and quantity indicate that in a certain item five price lines should be carried in four styles with ten pieces in each style, and the average retail price is \$71.00, this represents an investment of \$14.00 at retail. If an analysis of the years sales possibilities indicate a volume of \$2800 on this item, the turnover will be two. However, if upon study it is found that the reasonable rate of turnover for this item is three, it would seem that the stock should be \$933.33 at retail, which will require adjustment of the assortment to this amount.

High turnover is generally accompanied by reduced expenses, which in turn increase the net profit; hence it is desirable to maintain the highest turnover possible without jeopardizing the assortments and quantities to a point where an "out of stock" condition will exist. A merchant must not, however, let turnover be his sole guide to merchandise stocks. He must achieve a balance between desired stock assortments and planned turnover that will yield the best results.

The Initial Markup and Reductions

The initial markup and subsequent reductions in the form of markdowns and alterations are a determining factor in any stock plan. The initial markup must be large enough to cover the reductions, expenses and net profit. The basic stock must not only include enough merchandise to meet the demands of customers in the form of sales, but must also be large enough to include the retail reductions of markdowns, allowances and inventory shortages. Purchases, which largely determine the stock level, must be increased by the amount of the retail reductions.⁸ This, being true, means that any stock

⁸Wingate, op. cit., p. 227.

plan should include the planning of reductions so that the initial markup can be placed at a point where these reductions may be covered. A good formula for determination of the average markup is:

$$\frac{\text{Original markup} + \text{Reductions}}{100 + \text{Reductions}} = \text{Average markup}$$

Once this average markup has been determined, the merchandise may be priced with some bearing a higher and some bearing a lower markup. The reason for not applying the average markup to all goods is that luxury goods carry a higher markup than staples and fair trade laws operating in the majority of the states control the markup on many items.⁹ While the justification for "fair trade" laws will not be questioned in this study, it is safe to say that they have complicated the markup determination in many retail establishments. It follows that articles must be priced so that enough are above and below the average markup to insure the obtaining of that average.

The Budgeting of Markdowns

Markdowns are in reality adjustments of price which are designed to compensate for buying errors.¹⁰ The planning of these retail reductions will ordinarily result in the lowering of that figure. While some buyers may consider markdowns as a black mark against them and hesitate marking down merchandise for that reason, management by the inclusion of markdowns in the budget will indicate that they are contemplated, thereby relieving the buyer

⁹ Forty-five of the forty-eight states now have "Fair Trade" acts. Those not having them are Missouri, Texas and Vermont. Wingate and Brisco, Buying for Retail Stores, Prentice-Hall, Inc., New York, 1949, p. 655.

¹⁰ Wingate, op. cit., p. 240.

of some pressure. The intelligent planning of markdowns will result in a merchandise assortment that will be regularly relieved of slow selling merchandise that tend to accumulate until a total loss is realized.

Summary of Chapter III

In the preceding chapter we have seen that in order to devise an intelligent stock control plan it is necessary to very carefully weigh each factor entering into the final plan. Sales must be estimated with an eye to outside and inside factors of the retail establishment, as well as the experience of like organizations. Stocks must be planned so as to allow the least capital outlay that will sustain the plan without impairing the assortment, quantity and turnover. Markup must be large enough to include the retail reductions of markdowns, allowances and shortages. The day of haphazard guessing in the matter of merchandise control has passed, and the retail business of today must be a combination of scientific management and good common sense if it is to survive.

CHAPTER IV

THE MERCHANDISE PLAN

We shall now look at the steps in establishing the merchandise plan.

They are:¹

1. Establish a perpetual inventory at both cost and retail prices.
2. Establish length of budgetary period.
3. Establish opening dates for the budgetary period.
4. Formulate the plan for the selected departments.

Perpetual Inventory

It is universally agreed that the first step in a sound merchandise control system is the establishment of perpetual inventories at both cost and retail figures. It is only by this method that perpetual control may be exercised. In some small establishments, perpetual inventory may mean periodic inspection of stocks on hand, but in the majority of cases the inventory must consist of written records that are adjusted regularly for sales and purchases. The keeping of this perpetual inventory also includes the judicious recording of markdowns at retail. The keeping of a perpetual inventory enables the management and buyers to determine, at any time, what the stock on hand is made up of. It also allows the determination of slow-selling merchandise as the rate of sale is readily apparent.

The second step is the establishment of the length and starting periods of the budgetary period. For retail stores it is almost standard practice to

¹ Wingate, op. cit., pp. 65-80.

plan for a six-month period, dividing each period into months.² This is due to the natural division of the selling season into fall and winter, and spring and summer. In breaking the six-month period into months, an interesting aspect is created in that months do not have the same number of selling days. This has led to the use, by many stores, of a modified calendar with more equal periods.

In establishing the opening dates of the budgetary period, it is well to remember that it is desirable to have the opening, or rather the end of a budgetary period, coincide with the taking of physical inventory and the closing of the books.³ Many stores use February 1st and August 1st as this is the time that stocks are at their lowest ebb.

Once the budgetary period has been set, the management can formulate the plan for the coming season. The following form, or an adaptation thereof, will be used in each department as a guide. On this form, figures for the previous period will be shown with an estimate for this period. Space will be left for actual results also so that comparison between the estimate and actual may be made. It will be noted that much should sell. In order that the unit control system can function properly, it is necessary to break goods down into classifications within the department. A classification might show that goods were sold on the following basis:

Class A	\$ 4,000.00
Class B	2,000.00
Class C	4,000.00

² Wingate, op. cit., p. 68.
³ Wingate, ibid., p. 72.

DEPARTMENT MERCHANDISING BUDGET								
Season _____		From _____		195_ to _____		195_ Department No. _____		
Estimated Stock Turn _____								
Initial Mark-up Required _____%		Mark-downs _____%		Shrinkage _____%		Alterations _____% Gross Margins _____%		
		Feb. Aug.	Mar. Sept.	Apr. Oct.	May Nov.	June Dec.	July Jan.	Total
Sales	Last year							
	Plan							
	Actual							
Purchases	Last year							
	Plan							
	Actual							
Stock	Last year							
	Plan							
	Actual							
Markdowns	Last year							
	Plan							
	Actual							
Advertising	Last year							
	Plan							
	Actual							
Planned Purchases								
Plus or Minus Variations in Stock								
TOTAL								
Less Unfilled Orders								
Open to buy for Month								
Signed _____		Department Manager			Approved _____		Merchandise Manager	

Upon taking a physical inventory in preparation for unit control, it might be found that goods in stock were as follows:

Class A	\$ 2,000.00
Class B	5,000.00
Class C	3,000.00

This situation is not unusual, as it has been found that in a majority of cases this situation exists prior to the introduction of classification or unit control.⁴ Recapitulation of operations by classifications is very desirable where close control is desired. Classification should group merchandise that have similar markups, markdowns, turnover, seasonal activity, style importance, cash discounts, cost value and use as leaders.⁵ In the establishment of classifications it may be found that 90% of the sales are being made from 30% of the stock. If this is found to be the case, much of the stock can be eliminated and the fast-selling lines increased. Classification control actually amounts to departmentizing within departments so that each classification is treated as a department insofar as records are concerned. Many stores classify only as to sales and stocks with no gross margin being computed for each classification. The cost of keeping detailed classification records is high so they must be applied only where the resulting information will be of enough value to offset the cost. It must be remembered that stocks on hand will not be directly proportionate to the rate of sale of each classification as goods having a high turnover will require

⁴ Wingate, op. cit., p. 336.

⁵ Wingate, ibid., p. 339.

a proportionately smaller stock on hand than goods having a low turnover.⁶ Goods of low turnover, such as draperies, require a large assortment if customers' desiring them are to be held by the store. The object, in this type of goods, is to carry a large enough assortment to satisfy most customers' wants but not so large as to tie up unnecessary capital. The installation of unit control would aid in determining which fabrics and which patterns were making up the bulk of sales in this department or classification. The stock could then be adjusted so as to promote the best sellers.

The installation of unit control is not a substitution for dollar control, which is the adjustment of dollar value of stocks to demand, but is rather a supplemental form of control designed to aid in buying and selling. It aids the buyer by showing what classifications are selling well and which are not selling well. It can be made to show when to buy, as well as what to buy. It may be made to function in the establishment of model stock plans. If a perpetual inventory system is used, the quantity of goods on hand may be ascertained at any time and shortages may be located soon after they occur, thus allowing quick action by the management. If a supplemental want slip system is used, merchandise wanted but not stocked will be indicated so that the management may buy in these lines. Unit control is a selling aid in that it points out aging stock on which reasonable markdowns may be taken. Conversely it points out popular merchandise so that it may be further promoted. It may be used in the planning of special events in that the management can readily ascertain what merchandise is available for promotion

⁶ Wingate, op. cit., p. 360.

and how much additional merchandise will have to be ordered.⁷

Some dangers in unit control are that salespeople will not want to cooperate in recording the information, clerical errors may invalidate the records, management may lean too heavily on the system resulting in avoidance of risks that should be taken.⁸ These objections, along with the objection of high cost, can be met by a training of the salesforce in the operation and advantage of the system, by a critical examination of the store to determine the value of the system as applied to specific departments, and by the realization on the part of the buyers and management that the control system is meant to aid not to dictate.

Summary of Chapter IV

We have seen that, in evolving the merchandise plan, the establishment of perpetual inventories is desirable in most departments. We have also seen that the length and opening dates of the budgetary period must be set and that the adjustment of the calendar is desirable so that budgetary breakdown periods will have a comparable number of selling days. We have seen that the use of dollar control as supplemented by unit control is able to aid in the buying and selling of merchandise at the highest net profit possible under the estimated plan.

We shall now turn to actual operation of the unit control system in selected departments.

⁷ Wingate, op. cit., p. 375.

⁸ McNair, Gragg and Teel. Problems in Retailing, McGraw-Hill Book Company, Inc. New York, 1937, p. 215.

CHAPTER V

OPERATION OF MERCHANDISE CONTROL IN SELECTED DEPARTMENTS

Section I. Women's Shoes

As we have seen in the preceding chapters, the first step to be taken in the introduction of merchandise control is the establishment of a perpetual inventory. This would include a tabulation of the on order merchandise, as well as that in stock. For purpose of illustration we shall assume that the on hand and on order is as shown in Form II. It will be noticed that the form includes space for the manufacturers or resource data. The on hand appears on page 22, while the on order appears on page 23. As the on hand merchandise (shoes) are sold the figure for that size is crossed out and the new figure is pencilled in. Similarly, as the on hand merchandise is received the figure in the on order section is crossed off and the new figure entered. At the same time the corresponding figure in the on hand section is increased. See Form II.

At the time that a new order is placed, it is posted to the on order section of Form III, which is a monthly recapitulation of on hand, on order, receipts and sales. For example, on August 9 an order for 26 pair of shoes was placed. These were received on August 13. Weekly sales for the 25th through the 30th were 16 pair, with customer returns of 1 pair. The balance on hand on the 30th was 11 pair and an order for 35 pair was placed on the 31st.

A sheet similar to Form II will be used by salespeople to take a physical inventory periodically to check the perpetual inventory.

Manufacturer <u>Black</u>		Manufacturer No. <u>1261</u>		Style No. <u>834</u>									
Cost <u>\$ 8⁰⁰</u>		Retail <u>\$ 12⁹⁵</u>		<u>ON HAND REPORT</u>									
	4	4½	5	5½	6	6½	7	7½	8	8½	9	9½	10
AAAAA													
AAAA					1	1	1	1	32	321	1		
AAA			1	1	X	2	1	1		21	1		
AA			21	1	X2	21	31	23					
A													
B													
C													
D													
E													
EE													
EEE													

FORM II, PART 1. ON HAND REPORT

Manufacturer <u>Black</u>		Manufacturer No. <u>1261</u>		Style No. <u>834</u>									
Cost <u>\$8⁰⁰</u>		Retail <u>\$2⁸⁵</u>		<u>ON ORDER REPORT</u>									
	4	4½	5	5½	6	6½	7	7½	8	8½	9	9½	10
AAAAA													
AAAA				1	1	2	3	1	1				
AAA			1	2	1	1	4	2	1				
AA			1	1	1	1	2	1					
A													
B													
C													
D													
E													
EE													
EEE													

FORM II, PART 2. ON ORDER REPORT

Manufacturer <u>Black</u> Manufacturer No. <u>1261</u> Style No. <u>834</u>																
August 1949				September 1949				December 1949				January 1950				
	O.H.	O.O.	Rec.	S	O.H.	O.O.	Rec.	S	O.H.	O.O.	Rec.	S	O.H.	O.O.	Rec.	S
1																
2																
3																
4																
5																
6																
7																
8																
9		26														
10																
24	26		26													
25				4												
26				2												
27				6												
28				3												
29				1												
30	11			15												
31		35														
32																
33																

FORM III. MONTHLY RECAP SHEET

Form IV will be used to record sales daily and for the month by size and width.

Form V is a weekly record of sales, on hand and on order by price line and color. The information for this form will be entered from the sales slips and from Form II. It is apparent from this record that the following steps should be taken:

1. Shoes in the \$4.00 to \$4.99 class should be ordered probably in brown and grey.
2. Shoes in the \$8.00 to \$8.99 class should be ordered in the same colors.
3. Red and green shoes should be marked down or placed in a lower price line.

It is also apparent that to obtain the retail inventory it is merely necessary to extend the units on hand in each price line.¹ This can then be compared with the planned sales for the month and the open to buy calculated in the following manner:

Planned sales for month		\$ 3,000.00
Less: Sales to date		<u>1,650.00</u>
		\$ 1,350.00
Add: Planned markdowns for month	\$ 75.00	
Less: Markdowns to date	<u>50.00</u>	25.00
Add: Desired stock beginning of next month		<u>1,500.00</u>
		\$ 2,875.00
Less: Merchandise on hand	\$1,800.50	
Merchandise on order	<u>667.50</u>	<u>2,468.00</u>
Open to buy at retail		\$ 407.00

¹

An average of each price classification would be used in this case.

Department <u>300-Shoes</u>		Date <u>Dec 1950</u>											
MONTHLY RECORD OF SALES BY SIZE AND WIDTH													
	4	4½	5	5½	6	6½	7	7½	8	8½	9	9½	TOTAL
AAAAA													
AAAA				3	5	2							10
AAA			3	3	3	3	2						12
AA			1	1	1	2	2	1					8
A													
B													
C													
D													
E													
EE													
EEE													
TOTAL				6	7	5	5	4	1				30

FORM IV. MONTHLY RECORD OF SALES BY SIZE AND WIDTH

Week ending <u>Dec 24</u> 1950		Department <u>300 shoes</u>										
<u>SHOES</u> Price Line	M	T	W	Th	F	S	Sales Total 1950	Sales Total 1949	O.H. 1950	O.H. 1949	O.O. 1950	O.O. 1949
\$2.00--\$2.99												
3.00-- 3.99												
4.00-- 4.99	10	-	4	3	-	2	19	11	34	39	44	22
5.00-- 5.99	6	3	-	-	2	-	11	10	72	84	32	21
6.00-- 6.99												
7.00-- 7.99								2	14	12	0	4
8.00-- 8.99	4	2	1	1	3	4	15	10	38	34	26	23
9.00 and up												
14.99	-	-	3	-	1	-	4	12	23	28	5	15
17.99	-	2	-	-	3	-	5	6	28	24	0	10
TOTAL	20	7	8	4	9	6	54	51	209	221	107	95
CREDITS												

FORM V. WEEKLY RECORD OF SALES ON HAND AND ON ORDER

Week ending <u>Dec 24</u> 1950 Department <u>300-Shoes</u>												
<u>SHOES</u> Color	M	T	W	Th	F	S	Sales Total 1950	Sales Total 1949	O.H. 1950	O.H. 1949	O.O. 1950	O.O. 1949
Black	4	2	2	2	1	1	12		52		30	
Brown	3	1	2		2	3	11		40		22	
White												
Blue	1	2	1		1		5		35		5	
Gray	11	2	3	1	3	2	22		39		50	
Green	4			1			1		23		0	
Red	1				2		3		20		0	
Yellow or Gold												
TOTAL	20	7	8	4	9	6	54		209		107	
CREDITS												

FORM V. WEEKLY RECORD OF SALES ON HAND AND ON ORDER (Cont.)

If the average initial markup in this department is 30%, the open to buy at cost would be \$284.90

Thus we have seen how the use of unit control records, when combined with dollar control records, can be of great assistance in determining what to buy and when to buy it. This type of information would be very difficult to obtain without the use of these records or an adaptation of these records.

Section II. Ready to Wear

In ready to wear, unit control is especially important due to the fashional or seasonal element that is present. The fact that this element is present places a much greater responsibility on the buyer of this merchandise. He must purchase those items which will fit in with the current style trend, and must use information derived from current records to guide in reordering "runners" and other fast-selling merchandise. Markdowns must be taken at the proper time to move merchandise that is slow or near the end of the normal selling season for that type of goods.

While unit control is not a "cure all" for buying ills, it can, if properly used, aid the buyer in selecting many of the items that comprise ready to wear. Often, only a few of the factors that are significant from a control viewpoint are actually made the subject of the control system. This is due to the fact that there are so many factors which could be controlled in ready to wear. In women's dresses, for instance, there is first the breakdown into the classifications of sports, afternoon and evening, with a subclassification in each of these of price lines. Then, in each price line there is a breakdown of fabrics; in each fabric there are sizes; and in each size, colors. It is readily apparent that to control each of these factors would be out of the question in most operations. It then becomes necessary to pick the factors which are most important from the customer point of view. If fabric, color and price are the most important factors, they will be the subject of control. If style in each color is the important factor, that will be the controlled factor. Those factors which the buyer believes to be of greatest use, as indicated by customer wants, should be made the subject of control.

In the illustration of control in women's ready to wear, we shall assume that style, price line, color and size are the factors over which control is desired. The first step is the coding of these factors so that the information can be readily determined. In this instance, coding is relatively simple since only the style will have to be coded. The next step is the designing of the price tag to be placed on the garment. In this case, the use of a perforated tag, part of which remains on the garment and the remainder being used as the basis for control information, will serve the purpose nicely. The tag will appear as follows:

Mfgr's No.-----	1540	1540
Style No.-----	1214	1214
Size and color-----	14-Black	14-Black
Price-----	\$14.95	\$14.95

Once a garment has been sold, the information on the tag will be entered on a record of daily sales as follows:

Department <u>1200- Dresses</u>			Form No. <u>12-A</u>														
Mfgr. No.	Style	Price															
1540	1214	14 ⁹⁵															
	Colony	R-Black	14 size	1													
1545	1218	19 ⁹⁵															
	P	Black	16 11	14 11	12 11												
	P	Blue	14 11	12 1													
	P	Red	12 11	14 1													

FORM VI. RECORD OF DAILY SALES

From the record of daily sales, entry is made on Form VII which is made out for each manufacturer. This form is the record of individual styles and is used by the buyer in determining which styles are selling and at what rate. This information will be used by the buyer when he orders or goes to market. An example of this form follows on the next page. It will be noted that sales are posted by color and fabric and are posted daily, with the weeks total in red. When price changes occur, the new price is placed below the sale, as is shown on the 3^d. That garment will be sold at that price until further notice.

The next step is entry on a daily record of sales by price lines, color and size. Once this record has been completed the information that was desired, namely style, price line, color and size, will have been recorded for daily sales. An example of this form (Form VIII) is shown on page 35. The upper half of the form designates daily sales by price line and color, while the bottom half represents daily sales by size and color. A system of cross footing is used which serves as a check on the accuracy of the form and is used for posting to a weekly record of sales and inventory (Form IX, page 36.) The weekly summary is made out at the end of each week and includes dissection by price line, size and color. Sales have been posted from the daily records for one day to show how the form operates. Ordinarily, the form is large enough to accommodate all of the information for one month instead of only one week.

Once these unit control records have been introduced, the buyer has the information he needs to intelligently plan his purchases. He must, of course, take outside conditions into consideration when purchasing, but he can use

Name <u>Jones & Co</u>		Address <u>214 Nicolett ave Mpls, Minn</u>		Terms <u>2/10/ED1</u>	Mfg'r's No. <u>1540</u>									
Style	Ord. (Blk.)	Rec'd (Blk.)	Color and Fabric	1	2	3	4	5	6	27	28	29	30	31
	Canc. (Red)	Ret'd (Red)												
1214	1-10-50	6	1-3-50 1-14-50	6 6										
Cost														
96 ⁵														
Retail														
14 ⁹⁵														
Style														
Cost														
Retail														
Style														
Cost														
Retail														
Style														
Cost														
Retail														

FORM VII. RECORD OF INDIVIDUAL STYLES

		<u>Regular Prints</u>						
	Black	Blue	Red	Black	Blue	Red	Total	
\$ 6.95								
7.95								
8.95								
10.95								
12.95								
14.95	1						1	
16.50								
19.95				10	3	3	16	
TOTALS	1			10	3	3	17	
<u>Sizes</u>								
	12	14	16	18	20	22	24	26
<u>Regular</u>								
Black		1						1
Blue								
Red								
<u>Prints</u>								
Black	3	5	2					10
Blue	1	2						3
Red	2	1						3
TOTALS	6	9	2					17

FORM VIII. DAILY RECORD OF SALES BY PRICE LINE, COLOR AND SIZE

WEEKLY SALES RECAP										
Department <u>Dresses</u>		Week ending _____								
PRICE LINE	M S	T M	W T	T W	F T	S F	Total Sold	Stock On Hand	On Order	Liab.
\$ 6.95								12	10	22
7.95								10	10	20
8.95								16	8	24
10.95								12	8	20
12.95								14	11	25
14.95								19	-	19
16.50								20	-	20
19.95								34	16	50
TOTAL								137	63	200

FORM IX, PART 1. WEEKLY SALES RECAP

WEEKLY SALES RECAP										
Department <u>Access</u>		Week ending _____								
GRASS SIZE AND COLOR Size	M S	T M	W T	T W	F T	S F	Total Sold	Stock On Hand	On Order	Liab.
12	6						6	15	-	15
14	9						9	31	12	43
16	2						2	22	20	42
18								20	20	40
20								21	6	27
24								15	5	20
26								13	-	13
TOTAL	17						17	137	63	200
Color										
Black	11						11	69	24	93
Blue	3						3	47	20	67
Red	3						3	21	19	40
TOTAL	17						17	137	63	200

FORM IX, PART 2. WEEKLY SALES RECAP

these records as a basis to start from. There may be other records, or changes in present records, that will be needed in the future and the management will find it advisable to make those changes that will improve the system. If they do make changes for improvement, they will have hurdled the first big barrier in the establishment of stock control, that of becoming "unit control conscious." Once that factor has been established, unit control will have been established, for even if they discard all but one of the records they will still use the principles of unit control in future operations. Unit control need not be composed of reams of forms to be filled out judiciously, but may consist of a few simple recapitulations of the information that is desired. If the information aids in having the right goods at the right price, it has served its purpose. The forms as illustrated in this study are not meant to be taken as essential in the departments, but are rather meant to illustrate, in general, how the information can be tabulated. The forms used in a department should be as simple as possible and should be explained to new employees in order that they will know what is being accomplished by keeping such records. It is believed that employees will cooperate much more fully if they know "why" as well as "what." Control need not be established in all departments, in fact many departments or classifications will have unit sales of small value in which case a system of unit control would be so costly that its use would be prohibited. It is believed that goods of a unit price of under \$1.00 would not lend themselves well to unit control. The margin would be so small that the cost of the unit control method would require sales of so many additional units that it would be impossible to meet.

It is safe to say that installation of merchandise control must result in increase of profit by the amount of the cost of the installation if it is to be worth while.

CHAPTER VI

CONCLUSIONS

Retail merchandise control is not a substitute for present methods of keeping records in a business. It is a supplemental function which, in small stores, may consist of inspection of goods on hand and on order as compared with past results. In department stores which have departments doing business of \$30,000.00 and up, use of records which give information as to rate of sale of various types of goods is almost a necessity. The term almost is used because of the fact that some departments would not readily lend themselves to retail control.

Merchandise control is not merely the gathering of information but must include the use of this information which, when sorted, weighed and screened, will provide the basis for intelligent planning of operations. Merchandise control also includes a "control consciousness" which must exist if the system is to be successful. Once the management and personnel have become convinced that control over merchandise leads to increased sales and better balanced inventories, the big obstacle will have been hurdled.

We have seen that the use of a budget in which expenses are prorated to departments results in the arrival at a margin figure for departments. This figure, while not necessarily indicating that a department is operating satisfactorily, does serve as a basis for future plans of expansion or contraction.

Once the budget has been established, control in the form of dollar and unit control are generally introduced. Dollar control would indicate that on the basis of past records and present economic conditions a certain amount of

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sales volume could be reasonably expected and to meet that estimated volume, and at an estimated turnover, stocks would have to be maintained at a certain value expressed in retail figures. Unit control would then indicate that, on the basis of past sales, the physical make-up of the store, as expressed in dollars, would be made up of certain amounts of each physical unit whose dollar value would equal or be in close proximity to the retail value as indicated in the budget. Quite often, the amount of the dollar value of the stocks will not agree with the amount needed in physical units and in this case adjustment will have to be made in either or both factors so that complete assortments would be carried in fewer lines or the dollar value would be increased to the amount indicated by the physical content of a complete stock. Once this adjustment has been made the stock should represent, as nearly as possible, an adequate assortment that will satisfy the customer demand for the coming period. This assortment would include all price lines, colors, fabrics, sizes, brands and sizes that would meet customer requirements. This ideal stock as set up in the budget often becomes what is known as a "Model Stock." The establishment of this model stock often results in a decrease in stocks, whereas the layman would assume that an increase would be necessary. This decrease usually takes place when it is found that a large percentage of sales are being made from a small portion of the stock. If this situation is present, the decrease in stocks with the same sales volume will result in increased turnover. This increased turnover, while not always indicative of a healthy situation, generally indicates sounder merchandise techniques.

We have seen that the use of a perpetual inventory results in the

knowledge of what is on hand at any time, which in turn allows reorder of merchandise before stocks are depleted.

We shall now look at some of the advantages and disadvantages of retail merchandise control.

Advantages

1. Assistance to buyers: Valuable information may be derived from the control records that will assist buyers in the carrying out of their duties. The knowledge of past sales as to quantity and physical make-up will serve as a guide in the order of merchandise. The recording of unit information will indicate what price lines, colors, sizes, etc., are selling and which are slow moving and therefore will allow reorder of fast-moving merchandise and markdown of slow-moving merchandise. Buyers may also obtain information as to seasonal requirements from the unit control records, in that recapitulation of past seasonal sales will indicate partially what the need for the approaching season will be. Copies of unit control records may be sent to resident or cooperative buying groups, which will enable these agencies to offer merchandise that will fit into the store's stock needs. A buyer is responsible for large investments in merchandise and, like a banker, it is necessary that he obtain all the information possible in order to protect the investment. The use of merchandise control records will assist in the selection of readily salable merchandise, which will in turn result in reduction of inventory losses in the form of markdowns. Buyers, however, will make errors in buying which will necessitate markdowns but, if the merchandise records show that merchandise is not moving or is slowing in

its rate of sale, markdowns will be taken earlier and will minimize the loss. Good judgment must be exercised in markdowns so that the goods will not be marked down too automatically. A slowing of the rate of sale of some merchandise may be only a temporary trend and this is where the use of judgment enters in. If the decision is that the slump in sales is temporary, markdowns will not be taken but the merchandise will be watched carefully in the event that the temporary condition becomes permanent. Another record which usually accompanies a unit control system is the "want slip" which is merely a notation by the salespeople of merchandise requested but not carried in stock. These want slips can greatly assist the buyer in ordering merchandise which has previously not been carried in stock and which consequently provides no past record.

Thus we see that the buyer, by using the merchandise control records, can more intelligently plan his purchases and reductions and can promote fast-selling goods, thereby increase the volume of the store.

2. Aid in the movement of merchandise. That merchandise control facilitates the movement of goods in and out of the store, cannot be doubted. The knowledge of what can be expected to take place in the future allows for intelligent planning to meet the demands of the future. Once the plans for the future have been made and are put into operation, the actual results of the operation will indicate in the stock control records what changes are to be made. Trends in merchandise purchases by the public will be indicated partially in the stores own records and will indicate what shifts in promotion emphasis should be made. The early recognition of slow-moving and obsolete merchandise allows for prompt reductions which will facilitate movement of

those goods and allow the ordering of fresh merchandise. The more rapid the movement of merchandise in and out of the department, with maintained sales volume, the greater the profits. The wise use of the merchandise control records will facilitate this movement.

3. Pricing aid. Recent years have seen the development of the practice of price lining. The use of unit control records which indicate the number of units selling at certain price lines will enable the management to determine, in part, what price lines are most popular with the stores customers. This knowledge will in some cases allow elimination of weak price lines or indicate that certain price lines could be added to advantage; for example, there is an old rule in retailing that says the best selling price line should be the middle one. If, upon examination of the control records, it is found that the best selling price line is the highest one, the addition of a higher line or two would be advisable. The establishment of good price lines in turn allows the buyer to purchase for price lines, which is often advantageous but may be disadvantageous in times of rapidly fluctuating wholesale prices. The limiting of price lines often enables the store to offer better assortments within each price line. Another pricing aid that is in part the result of sound merchandise control is the facilitation of markdowns. Markdowns are the result of miscalculation on the part of the buyer and should be taken soon enough to make the loss on the markdown goods as small as possible. Some stores go so far in markdown policy that they find themselves taking markdowns automatically as soon as the goods have been in stock for a certain length of time. This policy is not considered too advisable, as many outside factors might enter into the reason for goods

selling at a slow rate. For example, the existence of unseasonable weather conditions might extend the salability of winter clothing into the spring and summer season at the regular price which would in turn make it ill-advised to mark down that merchandise even though the reasonable dating indicated that the goods had been in stock too long. This method of marking goods down has certain merit, however, and if tempered by good judgment will work quite well. Another question which arises in the matter of pricing is whether to change price lines or quality of the goods in times of changes in the general price level. The logical answer to this question is contained in the store policy. If price has been the outstanding feature of the store, then the price lines had better remain the same with quality being altered. If quality has been the keynote of the store or department, price lines can be changed to conform with general prices.

Thus we see that merchandise control records can be made an effective aid in determining price lines and also in determining price reductions.

Disadvantages

We shall now turn to a discussion of some of the disadvantages connected with retail merchandise control.

1. The danger that too much reliance will be placed on the control records. This danger is a very real one in that the merchandise operations may become automatic to the extent that outside conditions will be ignored with the result of decreasing sales and improper stock-sales ratio. This danger may be minimized by the realization by management that merchandise control does not only consist of records, but also includes a valuation of outside conditions that affect the flow of merchandise.

2. The tendency for control to become unwieldy and too complicated:

Control should be as simple as possible and should only exist to the extent that the important information can be obtained. In some departments control could consist of a periodic inspection of stocks and purchase orders to determine the on order and on hand merchandise. In other departments it would consist of simple written records that show the desired information. Simplicity should be the keynote in a system of merchandise control.

3. The failure to obtain the cooperation of all personnel in maintaining the control system: This fault lies in the education of the personnel as to the function performed by control methods. Human beings like to know why they are asked to perform certain tasks and will generally do those things that they feel are contributing to the efficient management of the organization. If the employee feels he is contributing to the efficiency of the store he will assist in the keeping of the records. The mere filling in of the sales book properly will insure accuracy on the salesclerk level and will enable the subsequent personnel to prepare correct recapitulations of information. One way to avoid mistakes on the salesclerk level is to use perforated tags on the merchandise which contain the necessary information and which are used as the original record from which sales data is gotten.

4. The cost of maintaining adequate records for sound control: This is the factor which has retarded the use of merchandise control more than any other. This cost, while high, need not be excessive. If the cost is greater than the value received, the system is not properly set up. Many businessmen have the mistaken impression that dollar and unit control consists of reams of forms which take up much valuable time and result in very

little substantial benefit. As an argument against this belief I shall cite the example of the rug department manager who believed that the bulk of the business in the department was done in 9 x 12 rugs, but upon establishment of a simple record of classified sales, it was found that the greater part of sales volume was being done in small 3 x 5 throw rugs due to the advent of many small apartments.¹ Obviously there was much capital tied up in the large rugs which could have been put to work promoting and increasing the assortment of smaller rugs. Certainly the cost of keeping those simple records could be more than offset by the increase in profit resulting from the expansion of the small rug classification.

There cannot be any contention that there would not be additional expense in the installation of a merchandise control system. The installation of this method does not eliminate the normal method of recording inventories and purchases at cost for purposes of obtaining the cost of goods sold figure, but it is believed that the keeping of inventories, purchases, markdowns, shortages, etc. at retail does serve a valuable purpose in that an estimated profit figure which will be very close to correct may be obtained at any time without the need of taking a physical inventory. This figure may be arrived at for individual departments as well as for the total store.

The system must pay for itself, otherwise it is of little value. If the management uses sound judgment in the formulation of the plan, it will pay for itself and will increase the profits of the business by more than

¹ Wingate, op. cit., p. 337.

its cost. It is my opinion that any information that will lead to better merchandising techniques is worth going after, but should be gotten at as little cost as possible. Much information for control can be obtained by observation of what is going on in the trade as indicated in publications, business reports and governmental indexes. The difficulty that looms greatest in merchandise control is the impression that to be effective it must be costly. It is true that some departments would require larger costs than others, but it is also true that those departments requiring large costs would generally be those which are most in need of some system of control.

It is interesting to note that Federal Income Tax Law sanctions the use of the retail inventory valuation method. Under this method, goods are valued at the retail selling price and then reduced to approximate cost; however, a separate ratio must be determined for each department or class of goods.² This would involve a great amount of work if the classifications are numerous. It would seem that the keeping of inventories at both cost and retail would be desirable, the cost data being used in the yearly profit figure and the retail figure being used in control procedure. As has been said before, retail merchandise control is not meant to be a substitute for regular business methods of record keeping, but is rather meant to supplement the regular records and give information that the normal records would not reveal.

²

Prentice-Hall, Federal Tax Course, Prentice-Hall, Inc., New York, 1948-49, p. 2608.

It is believed that the introduction of control, especially of the classification analysis type, will lead to better balanced stocks of easier to sell merchandise. The timeliness of markdowns will decrease and dollar amount of reductions taken; the regular check on inventories will reveal shortages soon after they occur, thus enabling the management to take the necessary steps to correct this situation before it becomes a serious source of loss. The use of perpetual inventories will facilitate the reorder of goods especially if an automatic reorder point is set on classifications. The buyer must be careful to realize that the automatic reorder point is merely an indication that goods have reached the point where, at maintained sales, reorder would be advisable. If the end of the selling season is close at hand, the buyer may reduce the amount of the order or not order at all. This situation clearly indicates the need for the inclusion of common sense in the control system.

It is believed that the increasing competition in the retail business will force stores to adopt merchandise control methods to varying degrees depending upon the type of merchandise handled. The controls may take the form of simple tally sheets which will indicate the nature of merchandise movement or may include a complete budget with the companion dollar and unit controls. The management must determine the extent of the control to be exercised on the basis of need and must be ever watchful of changes which will require revision of plans.

We have seen that in the laying of future plans, not only the past records must be analyzed, but also outside and inside factors must be taken

into consideration and, after a careful analysis of all factors, a plan may be devised which will form a basis for determining the merchandise needs of the establishment. This plan should be adjusted during the selling season so as to conform to current trends in business conditions. The stock should contain variety and quantity sufficient to meet the demands of most customers, but yet should not be larger than is necessary to meet the demand. The use of a good reorder system will allow the carrying of a smaller inventory at a higher turnover, thereby releasing capital previously tied up in slow-moving goods.

This study of retail merchandise control has indicated some of the problems involved in the installation of a merchandise control plan. It has been confined largely to the operation of control in department stores and, while not entering into the detailed techniques of recording information, it has indicated some simple forms on which the desired information may be recorded. The forms are for a women's dress department and a women's shoe department, and for other departments similar forms with some adaptations could be used.

The study has greatly increased my knowledge of retail merchandise control, as well as other aspects of retailing. It is my sincere hope that future students of merchandising will find this work useful in their studies.

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