

■ RETAIL MANAGEMENT

material for management training in consumer co-operatives

TRAINER'S MANUAL

international labour office, geneva

© MATCOM 1978-2001

by Urban Strand



MATCOM
Material and techniques for cooperatives management
training

The MATCOM Project was launched in 1978 by the International Labour Office, with the financial support of Sweden. In its third phase (1984-1986) MATCOM is financed by Denmark, Finland and Norway.

In collaboration with cooperative organizations and training institutes in all regions of the world, MATCOM designs and produces material for the training of managers of cooperatives and assists in the preparation of adapted versions for use in various countries. MATCOM also provides support for improving the methodology of cooperative training and for the training of trainers.

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. For reproduction, adaptation or translation, application should be made to ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. The International Labour Office welcomes such applications

Copyright © International Labour Organization

C O N T E N T S

Preface	Page	III
The Training Programme - General Information		V
The Training Programme - Session Guides and Material:		XI
Topic 1	Introduction	
Topic 2	Basic Economics	
Topic 3	Stock Management	
Topic 4	Sales and Services	
Topic 5	Handling of Goods	
Topic 6	Pricing	
Topic 7	Stock Control	
Topic 8	Cash Control	
Topic 9	Results, Reports, Responsibilities	
Topic 10	Action Commitment	
List of "MATCOM" Learning Elements" - Order Form		

Preface

For the training of staff, managers and committee members of consumer co-operatives, MATCOM has produced the following material:

- a series of booklets, called "MATCOM Learning Elements", intended for independent study by trainees (see list at the back of this manual);
- the training programme described in this manual, intended as a basic training course for shop supervisors and managers.

MATCOM collaborates with co-operative organisations and training institutes in developing countries for the improvement of training in the retail trades. Examples of such co-operation include "pilot seminars" based on this manual and "training of trainers" programmes. For more information on joint training activities, please write to:

The ILO-MATCOM Project
c/o CO-OP Branch
International Labour Office
CH-1211 Geneva 22
Switzerland.

THE TRAINING PROGRAMME - GENERAL INFORMATION1. The target group

This training programme is designed to assist in the basic training of anyone responsible for the day-to-day management of a co-operative retail shop. The target group may also include potential managers (shop assistants and others with practical work experience in the distributive sector). The programme can be modified for use with other target groups with specific training needs, e.g. committee members.

2. Aim

The aim of the programme is to enable trainees to plan and manage the basic operations of a co-operative retail shop.

In particular, the course should help trainees to:

- appreciate the basic aims of a co-operative and to formulate reasonable objectives;
- understand the basic economics of a consumer co-operative, the need for and the use of working capital and gross and net surplus;
- select and maintain a suitable assortment of goods;
- offer services and apply salesmanship appropriate to a consumer co-operative;
- handle and display the goods properly, instructing staff to do the same;
- decide on a pricing policy, determining the required margins and calculating the selling prices;
- design and maintain a proper system for stock control, minimizing leakage;
- design and maintain a proper system for cash control;
- prepare budgets and trading reports, checking regularly to see that expected results are achieved.

3. Use

The course described in this manual can be used for specialized training in retail management. The complete programme (or selected

sessions) can also be incorporated into the curriculum of a more comprehensive co-operative management training programme.

4. Duration

The complete programme detailed here consists of 29 sessions. Session times vary from 1 to 3 hours. The total programme will take between 40 - 50 hours or ~~6 - 8 days~~, depending on the qualifications and experience of the trainees and the hours worked each day. The time may well be exceeded. Each instructor must decide on the likely duration in view of local conditions. It is also recommended that 1/2 - 1 day be added for study visits.

The programme may also be split up into two or more shorter seminars.

5. Training approach and methods

On their return from the training programme, trainees should be able to show concrete results in terms of improved management. In order to achieve this, the programme has adopted a highly active learning approach through the use of "participative" learning methods and a built-in "action commitment".

Participants will not be trained in a general or passive way. Their specific day-to-day management problems have, as far as possible, been translated into realistic case-studies and problem-solving exercises. Trainees (working in groups and on their own) will learn by solving these problems, with assistance and guidance from the trainer as needed. He will act more as a "facilitator" of learning than as a lecturer.

Every trainee has some ideas and suggestions from which the others can learn. This material is intended to allow and encourage contribution from such individual insight and experience, so that all will go away having accumulated the knowledge that each brought to the programme.

This sort of shared learning is, in fact, almost always more important than the knowledge that you, the instructor, or the material itself can contribute. You should treat each trainee as a source of ideas as valuable as your own. The material is designed to help you elicit (draw out) these contributions.

The built-in action commitment at the end of the programme will give each trainee the opportunity to make use of the expertise of his colleagues in finding a concrete and acceptable solution to a specific problem. The trainee must commit himself to the implementation of that solution.

6. Structure

The programme is divided into ten TOPICS, each covered by a number of SESSIONS. (See list on page XI.)

The following material is provided for each session:

- a guide for the trainer (yellow pages), giving the objective of the session, an estimate of the time needed and a comprehensive "plan" for the session (including instructions on how to conduct it);
- handouts (white pages) of all material (case-studies, exercises, forms, etc.) to be reproduced for distribution to the trainees.

7. Adapting the material

Before "using" the programme in a real training situation, you may want to adapt it to your own circumstances. Follow the procedure below.

Read through the material and decide whether or not:

- the programme can be run as it is;
- only certain topics or sessions should be used;
- new topics and sessions should be added.

Your decision will depend on the training needs of your trainees and the means you have at your disposal.

Carefully read through the sessions you have decided to use. Check the subject matter in both the session guides and the handouts.

Modify them to include local currencies, names, and so on. Such adaptation will help trainees identify themselves more easily with the situations described in the handouts and will increase the impact and effectiveness of the programme.

Do not regard this manual as a book with all - or the only - answers. It is intended as a collection of suggestions and ideas which you must adapt, modify, use or reject as you think fit. The best evidence that you are using it properly may be the number of changes or and amendments you yourself have written into this copy.

8. Preparing the handouts and other learning aids

Handouts constitute an important part of the training material used in the programme. They can be reproduced from the originals supplied in the ringbinder, after any necessary adaptation has been made. Reproduction may be done using whatever method is available: stencil, offset printing, photocopy, carbon copy or even hand-written copy.

The only item of training equipment which is absolutely essential is the chalkboard.

Suggestions for visual aids are given in the session guides. If you have flipcharts or overhead projectors, prepare them in advance. If not, you can still use the chalkboard.

The Pre-course Questionnaire should be sent to the trainees in advance. (See Session 1.1.) Trainees should be asked to complete it and hand it in at the beginning of the programme.

9. Preparing yourself

Some trainers may feel that material of this sort means that they need only spend a few minutes preparing for each session. This is not the case.

You should go through the following steps before conducting any course based wholly or in part on this material:

- a. Read the session guides carefully; be sure you understand the content and that you can envisage what is intended to happen in the classroom.
- b. Work through all the calculations; be sure that you understand them completely. Try to predict the errors that trainees are likely to make, as well as incomplete or unexpected answers (not necessarily wrong) that may be worth following up.

- c. Work through the case-studies yourself and try to predict all the possible analyses and responses of the trainees.
- d. Note on the material itself as many local examples as you can to illustrate the points raised.
- e. Plan the whole session very carefully; try to predict approximately how many minutes each section of the session is likely to take. Make appropriate modifications to fit the time you have available. Do not restrict yourself to the time suggested in the manual.

10. Conducting the programme

While using the material, you should try to observe the following guidelines:

- a. Arrange the seating so that every trainee can see the faces of as many as possible of the others; do not put the trainees in rows so that the only face they can see is your own.
- b. Be sure that the session is clearly structured in the trainees' minds. Outline the structure at the beginning, follow it or say that you are diverging from it, and summarize what has happened at the end.
- c. Keep in mind the various learning points. Do not forget the job-oriented objectives of the session. Sum up the main points on the chalkboard, a flipchart or a poster. Encourage the trainees to take notes.
- d. Be flexible; do not follow the material slavishly. Be prepared to change the approach, depending on what the trainees themselves suggest.
- e. Avoid, whenever possible, telling the trainees anything; try to elicit important points from them by skilful questioning.
- f. If you fail to draw a particular answer from the trainees, it is your fault, not theirs. Persist, asking the same question in different ways, hinting at the response you want. Only make the point yourself as a last resort.
- g. Use silence to provoke response; if no one answers a question, wait 20 or 30 seconds. This gives trainees time to collect their thoughts and may embarrass someone into making an attempt.

- h. Avoid talking too much yourself; trainees' discussion should take up some three-quarters of the total time. Ask, listen and guide rather than talk. (Your domination of the session may only reveal your own insecurity or ignorance of the subject, in that you are not willing to risk questions or comments with which you cannot deal.)
- i. Never ridicule a trainee's answer or suggestion; it may have some merit and the attempt itself is commendable.
- j. If you cannot answer a trainee's question (perhaps even if you can) ask another trainee to respond. You are the facilitator, not the source of knowledge.
- k. Make use of the trainees' own words whenever possible (e.g. when writing summaries on the chalkboard). Do not limit yourself to the language in the training material, even if it is more precise.
- l. On occasion, act as "devil's advocate", supporting a view opposing that of the majority, for the sake of argument. There are usually no right or wrong answers to management questions, and this technique helps trainees see and understand both sides of an issue.
- m. If trainees take a quite different tack from that suggested in the manual, do not dismiss it out-of-hand; it may be as useful as the one suggested.
- n. Call on the silent and, if necessary, silence those who talk too much.
- o. Be sure that everybody understands what is going on; do not allow discussion to be taken over by a few who understand.
- p. Be dynamic; move around, walk up and down the classroom. Your physical activity helps keep everyone alert.

11. After the course

Keep a record of each trainee's action commitment. About six months after the end of the course contact each trainee, in person or by letter, to see how well he has implemented that commitment. Trainee failure indicates course failure; the training may have been ineffective, the trainees may have been poorly selected, or you may have failed to recognize problems preventing the trainees from applying their knowledge.

THE TRAINING PROGRAMME
LIST OF SESSIONS

TOPICS	SESSIONS
1. INTRODUCTION	1.1 Introduction 1.2 The aims of a consumer co-operative
2. BASIC ECONOMICS	2.1 How to earn a surplus 2.2 How to use the surplus
3. STOCK MANAGEMENT	3.1 How to decide what to deal in 3.2 How to select an assortment of goods 3.3 Economic purchase 3.4 How to develop the stock range
4. SALES AND SERVICES	4.1 Co-operative salesmanship 4.2 Service 4.3 The sales process
5. HANDLING OF GOODS	5.1 Basic rules for the display of goods 5.2 Display in self-service shops 5.3 Training staff in the handling of goods
6. PRICING	6.1 Pricing policy 6.2 Margin 6.3 Calculation of selling prices
7. STOCK CONTROL	7.1 Leakage 7.2 Delivery control 7.3 Stock-taking 7.4 Stock records
8. CASH CONTROL	8.1 Basic rules for cash control 8.2 Handling the cash 8.3 Accounting for the cash
9. RESULTS, REPORTS, RESPONSIBILITIES	9.1 How to evaluate a consumer co-operative 9.2 How to monitor business performance 9.3 Budgets and trading reports 9.4 Division of duties and responsibilities
10. ACTION COMMITMENT	10.1 Action commitment

topic

1

introduction

Session 1.1 Introduction

Session 1.2 The Aims of a Consumer
Co-operative

SESSION 1.1

INTRODUCTION

Objective: To demonstrate the scope and complexity of a shop manager's duties and the importance of improved management; to ensure that all participants are aware of the objectives of the programme; to introduce trainees to one another; and to ensure that all administrative details are in order.

Time: 1 - 2 hours.

Material: Completed Pre-course Questionnaires.
Timetable.
List of participants.

Session Guide:

- 1) The opening of the programme should be brief and to the point. The speaker should make the following points:
 - the need for co-operative efforts in the distributive sector;
 - the role of successful consumer co-operatives in national development (cite examples);
 - the serious problem of co-operative failure caused by inadequate management;
 - the essential role and tremendous responsibility of shop staff and managers in this context.

- 2) To illustrate the objectives and the content of the course, challenge the participants with such questions as:
 - Are you sure that you keep a suitable stock of goods?
 - Are you sure that your members really benefit from being customers in your shop? Are your prices "right"?
 - Are you sure that your shop is "out of stock" less often than other shops?

- Are you sure that the staff in your shop are well trained for their jobs?
 - Do people enjoy coming to your shop because the staff are so pleasant and service-oriented?
 - Is your shop as clean as it could be?
 - Does your shop earn a net surplus every year, providing you with money for development of the shop and improvement of services?
- 3) Go briefly through the timetable, stressing that trainees will be required to contribute their own ideas, not merely listen to other people talking. Stress that people learn more by active participation than by passive listening.
- 4) Ask each trainee to summarize his prior training and experience and to state what he hopes to gain from the course. Refer to the Pre-course Questionnaire if necessary. Identify the special expertise each trainee brings to the course, emphasizing the point that the group as a whole is an extremely valuable resource.
- 5) Explain that the purpose of the course is to improve the trainees' ability in the actual management of their societies, not merely to learn theory. Explain the main features of the "Action Commitment" included in this programme:
- By the end of the programme, each trainee is expected to have identified at least one major problem in his own society. He commits himself to solving it upon his return home.
 - On the final course day (Session 10.1) everyone will work out, in consultation with fellow trainees, detailed "action plans" for solving these problems.

Tell the trainees that the instructor intends to contact them at a later date to assess their success in implementing their plans. The course itself, rather than the trainees, will be judged by their success.

- 6) Ensure that any administrative problems are dealt with. Matters of accommodation, payment of expenses, transport, rooms for private study, and any other points of information should be settled before the programme begins.

Name: _____

Co-operative Society: _____

Brief description of your responsibilities:

Brief description of your co-operative:

Number of employees in the shop: Full-time: _____

Part-time: _____

Type of shop: Counter-service Self-service

Annual sales: _____ Average stock value: _____

Size of the shop: Selling area: _____ m² Storeroom: _____ m²

Other important facts about the shop:

What do you enjoy most in your work?

What do you find most difficult in your work?

Complete the following sentence: As a result of attending the course on Retail Management I hope that I shall be able to:

SESSION 1.2

THE AIMS OF A CONSUMER CO-OPERATIVE

Objective: To enable trainees to recognize the benefits members of a consumer co-operative expect from their shop and to formulate a list of reasonable goals for that co-operative.

Time: 1 hour.

Material: Mini-cases "Beta Town", "Delta Village" and "Gamma Village".

Session Guide:

- 1) Ask the trainees to suggest what customers might expect from a good retail shop. Discuss briefly the significance of each suggestion as you note it on the chalkboard. Include at least the following items on the list:

CUSTOMER EXPECTATIONS

- an adequate assortment of goods;
- clean and unadulterated goods;
- low prices;
- proper weights and measures;
- correct information regarding quality and use of goods;
- sufficient goods to meet demand;
- fair, impartial distribution of goods when shortages occur;
- respectful and responsive treatment from staff;
- convenient shop location.

Leave the "Customer Expectations" listed on the chalkboard throughout the discussion. After the session is over, transfer the list to a large sheet of paper and post this in the classroom for reference during the rest of the seminar. (This procedure should be followed throughout the seminar whenever an important summary or check-list has been presented. Make sure that all trainees copy

such lists and keep them, together with their other notes and the handouts, in their own "seminar files" for future reference.)

Ask the trainees to rank the three most important customer expectations on the list. Allow them a few minutes to make their choices; then ask them to vote. Note the results on the chalkboard.

There is, of course, no one correct answer. Point out to the trainees that the purpose of the exercise is to look at retailing from the customer's point of view. Ask them why it is a good idea for shop personnel to think of themselves as customers on occasion. Try to elicit such suggestions as:

- The shop belongs to the members/customers. It is for their benefit, not that of the shop personnel, that the shop has been set up.
- Shop personnel who spend more time thinking about their own working situation than about the real purposes of the shop are not likely to fulfill the expectations of the members.

Summarize the trainees' comments. Emphasize that there is a reason behind every co-operative and that both management and staff will perform their duties better if they bear it in mind.

- 2) Distribute copies of the mini-cases. Ask the trainees to read "Beta Town" and to then offer possible reasons for starting a co-operative shop in the same town.

The case may be analysed in a short discussion along the following lines:

- a) What customer expectations are not satisfied by the present shop?
- b) What problems affect the townspeople the most?
- c) What services should a new shop offer to better serve these people?
- d) What customer expectations must be satisfied first by a new co-operative?

Refer to the "Expectations" listed on the chalkboard. Remind the trainees that no co-operative is likely to have immediately available the financial and other resources required to meet all demands. It must organise its priorities.

- In this example, the new co-operative may have to choose whether to guarantee fair distribution of basic food items or to lower the price of non-price-controlled items.
 - Trainees may want to include as aims member participation in the democratic control of the society, their expectation of patronage refunds, or other matters of co-operative principle. Make it clear that such basic principles are not aims in terms of customer expectations, but rather means to fulfill those expectations.
- 3) Ask trainees to read the next mini-case, "Delta Village". Conduct a discussion similar to the previous one.
- Obviously, the main reason to start a co-operative in Delta Village is the present lack of retail services. No private trader has been interested in setting up a shop; if the villagers want one, they have to start it themselves. A small co-operative shop should be able to supply their basic necessities.
- 4) Discuss the third case, "Gamma Village".
- The competition between the two shops in Gamma kept services and prices at an acceptable level. When competition ceased, the villagers were exploited by the sole remaining shop owner. A new co-operative shop would restore competition and function as a "price regulator".
- 5) Ask the trainees to think about their own co-operatives: Why were they originally started? Ask a number of trainees to describe the role of their shops. Discuss the extent to which customer expectations are satisfied.

Beta Town

The Prima Store is the leading grocery shop in the small town Beta. It stocks a wide assortment of goods, including some exclusive tinned food and a good variety of household items. Prices are quite high except for those fixed by the government on basic food items.

The Prima Store usually manages to be well supplied because it can afford to purchase large amounts of goods when available. This is not the case with the other shops in town which, as a result, often face out-of-stock problems.

Often such essentials as sugar, flour and cooking oil can only be found in one shop - The Prima Store. But it reserves stock for important customers, especially those who can afford to buy the more expensive goods. Regular customers are told that the sugar or oil they want is unfortunately out of stock there, too.

Delta Village

Some 50 families, most of whom are peasants, live in the small village of Delta. There is no shop in Delta so whenever they need to buy something they have to go to Kopra, a larger village some ten km away.

A couple of villagers go to Kopra regularly. They will do the shopping for their fellow villagers provided they get advance payment and an allowance for transport. This arrangement works fairly well, but occasionally the goods brought by the "traders" do not satisfy a buyer. He may, for example, get a type of oil he does not like or find that a bag is leaking because it was torn during transport. Yet he must accept the goods without complaint or do his shopping himself the next time.

Gamma Village

There were two shops in the small village of Gamma. Both had reasonable assortments and prices.

For personal reasons one of the shop owners had to move his business to another village. The villagepeople were surprised to discover that prices in the remaining shop had suddenly greatly increased and that the attitude of the shop owner had changed; he took a hard, almost arrogant stand when the villagers complained.

topic

2

basic economics

Session 2.1 How to Earn a Surplus

Session 2.2 How to Use the Surplus

SESSION 2.1

HOW TO EARN A SURPLUS

Objective: To enable trainees to explain the concepts "working capital" and "gross surplus"; to explain why a co-operative needs to make a surplus and to identify the factors which determine the size of a gross surplus.

Time: 1-1 1/2 hours.

Material: Glossary.
Exercises "Omega Co-operative Society I and II".

Session Guide:

- 1) Hand out the "Glossary" to the trainees, explaining that it contains the most common terms used in retail economics. They should not study the paper now; the terms will be explained during the course. The glossary is intended for future reference. (Note: As there are variations in the use and definition of these terms, adaptation of the glossary in accordance with local practice is recommended before it is reproduced and handed out to trainees.)
- 2) Ask the trainees how their shops use the money received as payment for goods. List the answers on the chalkboard. One suggestion will no doubt be "purchase of new stock". Discuss why the purchase of new merchandise is the most crucial item listed.
 - Obviously, the basic purpose of any shop is to provide goods. If stock is not continually replenished, members will not be able to buy what they need, and the shop will fail.

Explain that the capital needed to maintain the stock of goods is called working capital. It makes the "work" of the shop possible: the buying and selling of goods. Point out that the working capital must "stay and work" in the shop all the time; sometimes the capital appears as a large stock of goods; sometimes it is in the form of the payment received for those goods. Then the money from the sales is used immediately to replenish the stock.

- 3) Ask the trainees how their co-operatives can pay for the other expenses listed on the chalkboard (wages, rent, insurance, stationery, etc.).
- They must sell their goods at a higher price than the cost price. This margin (or difference) between cost price and selling price gives the co-operative a profit which can be used to pay the costs of operating the shop. This profit is usually called gross surplus in a co-operative, as there is no intention of making a "profit" for anyone in a consumer co-operative.
- 4) Ask the trainees what would happen if the gross surplus (the margin) is not sufficient to cover the operating costs, and the manager uses some of the working capital for this purpose.
- If the working capital is reduced, the stock would also be reduced, of course. The lower volume of stock would probably lead to reduced sales and, in turn, to reduced gross surplus, so there would be even less money to pay expenses. The shop would begin a vicious circle, usually the beginning of the end.
- 5) Distribute copies of "Omega Co-operative Society - I". (If the exercise is adapted to local conditions, note that the figures should be chosen to render the calculations fairly simple, with obvious conclusions.)

Ask each trainee to calculate the total sales and the gross surplus. After five or ten minutes, ask for the results and note the correct answers on the chalkboard.

Sales	\$1,075
Cost of goods sold	<u>1,000</u>
Gross surplus	\$ 75

- 6) Tell the trainees that it will take the co-operative one month to sell out this stock of goods; thus the gross surplus will be \$75 in one month. Ask what the gross surplus would be if the manager had twice as much money at his disposal (i.e. a working capital of \$2,000), and if all the goods could be sold at the same margin within one month.
- Obviously, the surplus would be twice as much, i.e. \$150.

Point out that the gross surplus depends on the sales and that sales are influenced by the size of the working capital.

- 7) Ask the trainees to assume, again, that the manager had a working capital of only \$1,000. In that case, what could he do to double his gross surplus to \$150?

Trainees may suggest:

- doubling the margin;
- reducing the cost of goods.

These possibilities will be discussed later. Ask whether there is any other way to increase sales and gross surplus, without increasing the working capital. Try to elicit the answer:

- "turning the stock quicker".

Make sure that every trainee appreciates the meaning of "turning the stock": a shop that turns the stock (sells out the stock) quickly has a high rate of stock turn; a shop that keeps the goods for a longer time has a low rate of stock turn. For example:

- If the stock is sold out in a month, the gross surplus is \$75 in one month'. If the stock is sold out in two weeks, the gross surplus is \$75 in two weeks. Then the manager buys new stock, sells out this in two weeks and again earns a surplus of \$75. By "turning the stock" twice in the same month he has doubled his gross surplus, still using only the same working capital of \$1,000.

Remind trainees that the gross surplus depends on the sales. We have seen earlier that the sales are influenced by the working capital; now we see that also the rate of stock turn is important. Note these points on the chalkboard.

Point out that, in practice, stock is never really "sold out" as described in our simplified examples above. Actually, it is continually being replenished, and it is not so easy to see how quickly the stock is turned.

Check to see how many trainees know the rate of stock turn in their shops. Ask one to demonstrate how to calculate it. This should be done as below, using the formula:

$$\frac{\text{Sales}}{\text{Average stock value}} = \text{Rate of stock turn}$$

The average stock value must first be found. Suppose that three stock-takings have given the following results:

Stock on 31 March	\$24,500
Stock on 30 June	\$21,500
Stock on 31 September	\$26,000
	\$72,000

$$\text{The average stock value} = \frac{\$72,000}{3} = \$24,000$$

Suppose that sales were \$408,000 in one year.

The formula can now be used:

$$\text{The rate of stock turn} = \frac{\$408,000}{\$24,000} = 17 \text{ times per year.}$$

- 8) Distribute copies of "Omega Co-operative Society - II". (Trainees will also need part I with its now-completed calculations.) This exercise reveals other factors influencing the size of the gross surplus.

Case A

In a plenary discussion, try to elicit this answer to Case A.

- Due to the cost of the packing material, the total cost of sugar will increase by $100 \times \$0.20 = \20 . This increase of the cost of goods means that the gross surplus will decrease by \$20.

Ask the trainees to solve Cases B - E on their own. Allow five to ten minutes for their calculations, then ask for their answers, discuss the cases, and note on the chalkboard the factors affecting the gross surplus.

Case B

The gross surplus is reduced by \$10 because the cost of goods increased (the transport of goods had to be paid).

Case C

The gross surplus was reduced by \$55 because 20 kg of flour were "lost". (20 x \$2.75 = \$55.) Explain that a loss of this type, when goods disappear without being paid for, is called leakage.

Case D

The gross surplus increased by \$8 because the margin increased from 50 to 70 cents. (40 x \$0.20 = \$8.)

Case E

The gross surplus increased by \$2.50 because the surplus earned on a bag of rice is \$12.50 whereas the surplus on a box of margarine is only \$10. Show that the margin is higher on rice:

$$\frac{\$12.50}{\$112.50} \times 100 = 11\%$$

and lower on margarine:

$$\frac{\$20}{\$220} \times 100 = 9\%$$

(Take this opportunity to remind the trainees that the margin, or gross surplus, is always expressed as a percentage of the sales.)

- 9) Conclude the session by asking a trainee to sum up what we have learned in this session about factors that influence the size of the gross surplus. The points below are most important. Write them on a poster and ask the trainees to record them in their notes.

The GROSS SURPLUS (the MARGIN) is the difference between SALES and the COST OF GOODS.

INCOME RECEIVED FROM SALE OF GOODS
- COST OF GOODS SOLD
- COST OF GOODS LOST (LEAKAGE)
= GROSS SURPLUS (or MARGIN)

The INCOME RECEIVED FROM SALE OF GOODS is influenced by:

the size of the WORKING CAPITAL,
the RATE OF STOCK TURN,
the SELLING PRICES.

The COST OF GOODS is influenced by:

the COST PRICES,
the TRANSPORT COSTS,
the PACKING COSTS.

G L O S S A R Y

Some co-operative and economic terms and their definitions.

Bonus	See patronage refund.
Cost price	The price a retailer has to pay the supplier for the goods + the freight cost.
Depreciation	The cost of fixed assets (like buildings, furniture and weighing machines) over time. The cost is spread out over a period of years and is charged against the surplus, like all other costs.
Dividend	The annual payment received by members who have bought shares in a co-operative; similar to the interest a bank pays to those who put their savings in the bank. To be able to pay a dividend, a co-operative must earn a net surplus.
Freight cost	The cost for having the goods transported to the shop.
Gross profit	Same as gross surplus.
Gross surplus	The difference between the actual income received from sales and the cost of goods sold and lost.
Interest	See dividend.
Leakage	The value of the goods which "disappear" for unknown reasons, without being paid for. Leakage can be expressed as a percentage of sales.
Margin	The difference between the selling price and the cost price. The margin can be expressed as a percentage of the selling price.
Mark-up	The amount added to the cost price to arrive at the desired selling price. The mark-up can be expressed as a percentage of the cost price.
Mark-up multiplier	A number used to multiply the cost price in order to arrive at the selling price.
Net profit	Same as net surplus.

Net surplus	What is left from the gross surplus when all expenses for running the shop have been paid.
Operating costs	The costs of running the shop; for instance, wages, rent, insurance, electricity.
Patronage refund	When a co-operative earns a sufficient net surplus, some of it may be paid back to the members as a patronage refund. The amount each member receives depends on how much he has patronized the shop; the more purchases he has made, the larger refund he will receive. The patronage refund is sometimes called "bonus", sometimes "dividend on purchases".
Running costs	Same as operating costs.
Selling price	The cost price + the mark-up. The selling price is the price the customers pay in a retail shop.
Stock turn rate	A measure of how quickly the goods are sold, stating how many times the average stock of goods is sold during a period.
Surplus	See gross surplus and net surplus.
Transport costs	Same as freight costs.
Turnover	The amount of sales over a period of time.
Working capital	The money available for purchase of goods + the value of the stock of goods in the shop.

Omega Co-operative Society - I

You are the manager of Omega Co-operative Shop and you go to the Co-operative Wholesale Society to purchase a stock of goods as follows.

Purchases

X-millet, bags of 50 kg	2 bags	@ 150.00	\$ 300.00
Fish in oil, box of 50 tins	1 box	@ 100.00	100.00
Flour, bags of 50 kg	3 bags	@ 125.00	375.00
Margarine 500 g, boxes of 20 tins	2 boxes	@ 100.00	200.00
Transport cost			25.00

Selling prices

X-millet	per kg	\$ 3.30
Fish in oil	per tin	\$ 2.25
Flour	per kg	\$ 2.75
Margarine	per tin	\$ 5.50

Complete the following calculation to see how much money will be collected when all the goods have been sold.

Sales

X-millet	2x50 = 100 kg	@ \$ 3.30	\$ 330.00
Fish in oil	1x50 = 50 tins	@	
Flour			
Margarine			
Total			

How much will the society earn on the sales of all these goods?

Sales	\$
Cost of goods	\$ _____
Gross surplus	\$

Omega Co-operative Society - II

Calculate how the gross surplus will change due to each of the following events:

A You decide that the millet is to be pre-packed in paper bags. Each bag is to contain 1 kg. A bag costs 20 cents. You do not charge customers for the bags.

B You did not receive the fish immediately. On the following day you sent a man to collect the box. You paid him \$10 for bringing it to the shop.

C The following problems occurred regarding the flour, although nobody was aware of them:

- The bags received from the supplier did not contain the full weight.
- The shop attendant was very generous and usually gave a little "overweight" to customers who bought flour.

For these reasons the co-operative received payment for only 130 kg, although it paid the supplier for 150 kg.

D The selling price of tins of margarine was changed to \$5.70. All the stock was sold at the new price.

E You spent the \$1,000 in a different way. You purchased only one box of margarine. Instead of the other box, you purchased a second box of fish. (The margarine was sold at \$5.50 a tin, and you had no extra transport cost for the fish.)

SESSION 2.2HOW TO USE THE SURPLUS

Objective: To enable trainees to explain for which costs the gross surplus is used, the need for a net surplus, and the ways a net surplus might be increased.

Time: 1 - 1 1/2 hours.

Material: Exercises "Monthly Costs of Running a Shop",
"Inflation".

Session Guide:

- 1) Divide the trainees into small groups of two to three, putting those from the same shop or the same area together. Distribute the exercise "Monthly Costs of Running a Shop" and ask the groups to estimate the costs as outlined. They should use figures from a shop in which at least one group member is employed.

When all groups are ready, have them note the average monthly sales of the shop: Use the table on the back of the exercise sheet. If they do not know this figure, ask them to estimate how much is sold on a normal day and to multiply this figure by the number of days the shop operates in a month (usually 25).

Point out that the average margin in a retail shop is between 8 and 10 % of the sales. (Adjust the figures to local conditions.) Show how to calculate its gross surplus on monthly sales of \$20,000.

$$\text{a) if the margin is 10 \%} \quad \frac{10 \times \$20,000}{100} = \$2,000$$

$$\text{b) if the margin is 8 \%} \quad \frac{8 \times \$20,000}{100} = \$1,600$$

Ask the groups to calculate the gross surplus of the shop in the exercise, if the margin is 10 %. (Example a.) Then ask them to deduct the estimated monthly costs for running the shop from this gross surplus. Explain that what is left is called the net sur-

plus. If the costs exceed the gross surplus there is a loss. Ask each group whether it has found a net surplus or a loss.

Have the groups calculate the gross surplus if the margin is 8 (example b.). Again, ascertain which groups have a net surplus or a loss, once operating costs have been deducted.

Sum up by stressing that the gross surplus must be large enough to cover all the costs of running the shop.

- 2) Divide trainees into new groups of four to six. (You might combine the previous small groups in pairs.)

Refer to the calculations they have just made and ask them to discuss various ways of turning a net loss into a net surplus or of increasing a small net surplus. They should be prepared to comment on the feasibility of their suggestions. Allow up to 20 minutes for the group discussions.

Reconvene the class and ask for suggestions from each group in turn. Note each method on the chalkboard (or directly on a poster) and discuss its feasibility. The methods below should be listed and discussed.

To improve the net surplus:

- Sell more goods through faster stock turn, expanded stock range, improved service, sales promotion, etc. The fact that such efforts to increase sales are themselves likely to cause extra costs must not be overlooked.
- Reduce selling prices, thereby increasing sales. This method could "backfire", making things worse because of the reduced trade margins. A great increase in sales would be required to increase the surplus.
- Increase the selling prices, thereby increasing margins. This method is useful only if your current prices are lower than those in other shops; otherwise the customers will buy where it is cheaper.

- Sell more high-margin items, thereby increasing average margin. There is a danger that overall sales might drop because high-margin items usually have a slow rate of stock turn. Customer demand may not exist for these items.
 - Reduce your cost of goods. Find a supplier offering lower prices, arrange for a cheaper means of transportation of merchandise, stop providing customers bags free of charge, etc.
 - Reduce the costs of running the shop. Review all expenses carefully. Are there costs not directly connected to the shop business? What costs could be cut with little effect on sales? What types of costs are largest?
 - Reduce leakage. This is a good way to increase gross surplus without cost or negative effect on sales.
- 3) Remind the trainees that a co-operative is not supposed to "make a profit". Ask them why a co-operative shop must still make a net surplus. They are likely to mention that it is needed:
- to increase the owned capital (e.g. various funds) in order to
 - increase the working capital (stock of goods),
 - improve the shop building, equipment, etc. (investments),
 - replace borrowed capital with owned capital (repay loans),
 - create a reserve against possible future losses;
 - to pay dividends and bonuses to members
 - as dividend on the share capital,
 - as patronage refunds (bonuses) on purchases;
 - to pay bonuses to the staff (practised in some countries).
- 4) Explain that an increase of the working capital will be needed just to maintain the present stock level, due to inflation. (Inflation = the average price increase on consumer goods in one year.)

Distribute the exercise "Inflation" and ask the trainees to do the calculations independently. When they are ready, ask them for the correct answers.

- a) $300 \times \$3 = \$ 900$
- b) $300 \times \$4 = \$1,200$
 $\$1,200 - \$900 = \$ 300$
- c) $300 \times \$0.30 = \$ 90$
- d) $200 \times \$0.30 = \$ 60$ $(3.30 - 3.00 = 0.30)$
 $100 \times \$1.40 = \$ 140$ $(4.40 - 3.00 = 1.40)$
 $\$ 200$
- e) $\$200 - \$90 = \$ 110$

Refer to question b) and ask the trainees to suggest how the co-operative should be able to meet the increased need for working capital. They should recognize that:

- by increasing the selling price on the remaining stock, the co-operative will earn "extra" surplus;

the "extra" surplus is not enough, more working capital will be needed. (It may be gained by earning more surplus on other goods, for example, or by asking members to buy more shares.)

- 5) Sum up by stressing that any shop - private or co-operative - will need a net surplus to increase its working capital. At least the loss of capital due to inflation and repayment of loans must be compensated for. Furthermore, a net surplus is needed for development and reserves.

Whatever remains after all these considerations the private trader keeps for himself - it is his personal profit. But the co-operative must use it for the benefit of the members - to pay interest on shares, for patronage refunds or for any other common purpose decided in the general meeting.

Monthly Costs of Running a Shop

Estimate the monthly costs for the co-operative shop where you are working or another shop which you know well. Make a realistic estimate for those costs you do not know. If a certain cost does not occur every month, you may estimate its annual cost and divide it by 12 to get the monthly cost.

Note: Freight costs should not be included here, as they are included in the cost of goods.

\$

Wages	_____
Pension contribution	_____
Staff insurance	_____
Other staff costs	_____
Education, training	_____
House rent	_____
Maintenance	_____
Shop insurance	_____
Business licence	_____
Interest on loans	_____
Bank charges	_____
Audit and accounting fees	_____
Postage	_____
Telephone	_____
Electricity	_____
Water	_____
Garbage collection	_____
Cleaning materials	_____
Stationery	_____
Price labels	_____
Posters, placards	_____
Advertisements	_____
Wrapping material	_____
Travel	_____
Entertainment	_____
Depreciation of fixed assets	_____
Sundries	_____
TOTAL	=====

Calculate the surplus (or loss):

a)	Sales	-----	
	- <u>Cost of goods</u>	-----	
	= Gross surplus	-----	(10%)
	- <u>Running costs</u>	-----	
	= Net surplus (loss)	-----	

b)	Sales	-----	
	- <u>Cost of goods</u>	-----	
	Gross surplus	-----	(8%)
	- <u>Running costs</u>	-----	
	Net surplus (loss)	-----	

Note that the "Cost of goods" includes both the cost of the sold goods and the cost of any lost goods (leakage).

Inflation

In a certain country the price of sugar was fixed by the government:

Cost price per kg	\$3.00
Selling price per kg	3.30

One day, a price increase was announced:

Cost price	\$4.00
Selling price	4.40

A co-operative shop had purchased 300 kg of sugar at the old price.

- a) How much working capital had been invested in the stock of sugar?
- b) How much more working capital will be needed to replace the stock, when all the sugar has been sold?

At the time of the price increase, 100 kg of sugar remained in stock.

- c) How much gross surplus will be earned if all the stock is sold at the old price?
- d) How much gross surplus will be earned if the new selling price is charged for the remaining stock?
- e) How much "extra" surplus will the co-operative earn, due to the price increase?

stock management

Session 3.1 How to Decide What to Deal In

Session 3.2 How to Select an Assortment
of Goods

Session 3.3 Economic Purchase

Session 3.4 How to Develop the Stock
Range

SESSION 3.1HOW TO DECIDE WHAT TO DEAL IN?

Objective : To enable trainees to identify the main groups of goods that a co-operative shop should deal in.

Time : 1 1/2 - 2 hours.

Material : Case-study "The Stock Range".

Session Guide :

- 1) Remind trainees of the basic aim of a consumer co-operative society: to provide members with goods.

Discuss the implications of the aim: should a co-operative shop stock everything its members might like to buy? Ask the trainees why not. They will probably mention:

- Lack of funds. The co-operative society does not have enough money to purchase everything.
- Limited supply. Some items might not be available from wholesalers or producers.
- Lack of storage capacity. The shop has limited space for storage and display of goods.
- Lack of equipment. Some goods might require special equipment, such as coolers or freezers.

Emphasize the obvious conclusion: it is not possible for a co-operative to sell every kind of merchandise. A selection must be made.

- 2) Divide participants into groups of about five members and distribute the case-study "The Stock Range". Allow up to 30 minutes to discuss the case and to complete the assignment.

Ask a representative from each group to list the answers to a) and b).

Use one of the lists of goods - preferably the most varied - as a demonstration. Ask the group which produced it to come forward to act as the committee. Their job is to convince the other trainees - acting as members of the co-operative - that it is the best selection. Close the meeting after about 15 minutes even if members and committee do not reach an agreement.

Finish the discussion by explaining that every consumer co-operative should select its stock of goods for the benefit of the members.

- 3) Explain to trainees that one method of identifying the goods of most benefit is to classify them according to
- how much they are wanted (demand);
 - how available they are (supply situation).

Three classes of each would be sufficient:

Demand

- High (the most needed or most frequently bought goods)
- Average
- Low (only wanted by a few members, not often bought)

Supply Situation

- Bad ("problem goods" which are not always available, priced too high, or of bad quality in other shops)
- Average
- Good (goods which are already available at fair prices)

Demonstrate how such a classification system could be applied in the case of Smalltown Co-operative. Draw a table on the chalkboard/OHP* as shown below and briefly assess the supply and demand situation for the various groups of goods. This is a possible result.

* OHP = overhead projector

Kind of goods	Demand	Supply situation
Fruits and vegetables	Average	Average
Bread	High	Bad
Meat	High	Average
Basic food items	High	Average
Dairy products	Average	Bad
Tinned food	Average	Average
Drinks	Average	Average
Cigarettes	Average	Good
Hygiene articles	High	Good
Household items	Average	Average
Kerosene	High	Good
Tools and implements	Low	Bad
Clothes and shoes	Average	Average
Books and magazines	Low	Bad
Tapes and records	Low	Bad
Sundries	High	Bad

Then show how a priority list is prepared. The goods should be ranked accordingly to demand. Equally demanded goods should be ranked according to the supply situation. If the classification in the table above is accepted, the ranking will be as follows.

- 1 High demand, bad supply
 Bread
 Sundries
- 2 High demand, average supply
 Meat
 Basic food items
- 3 High demand, good supply
 Hygiene articles
 Kerosene
- 4 Average demand, bad supply
 Dairy products
- 5 Average demand, average supply
 Fruits and vegetables
 Tinned food
 Drinks
 Household items
 Clothes and shoes

- 4) In our example, the ranking reveals that the Smalltown Co-operative would serve its members very well by selling bread. Ask the trainees to explain how the co-operative might be supplied with bread.

Since there is no bakery in Smalltown, the trainees might suggest that the co-operative start one. Alternatively, bread could be supplied from a bakery in Maintown. Could either of these suggestions be realized? What would be needed?

Required to start a co-operative bakery:

- housing
- equipment
- raw materials
- funds
- skilled staff

Required to arrange supply from Maintown:

- a supplier in Maintown
- transport to Smalltown

Trainees may agree that it is unrealistic to expect the new co-operative to be able to start both a bakery and a shop. If they also find a supply from Maintown too complicated or too expensive, they must recognize that it will not be possible to sell bread in the new co-operative shop.

- 5) Ask them to identify other kinds of goods which the Smalltown Co-operative might find it advisable not to deal in - despite demand. Examples:

Meat

- The co-operative may face problems getting a supply of meat. It might not be able to afford the necessary cooler or freezer even if the supply situation improved.

Dairy products

- Cooling equipment is required.

Fruits and vegetables

- It would be difficult for the co-operative to offer other produce than that already available at the local market, and also difficult to compete with local prices.

Clothes and shoes

- It is unlikely that the co-operative could afford to keep a better assortment than the other shops, so the problem would not be solved.

6) Ask some trainees to sum up the method for deciding, in broad terms, the stock range of a co-operative shop described in this session. They should mention the three-step approach:

- i) Classify goods according to demand, giving priority to the most-demanded goods.
- ii) When they are equally demanded, give priority to those goods not presently supplied to consumers in a satisfactory way.
- iii) Delete from the list any goods that the co-operative will not be able to supply satisfactorily.

7) Explain that the correct answer to the assignment depends on the trainees' assessment of the demands and possibilities of the Small-town Co-operative. It is more important that the trainees perceive and practise the method described than reach a certain solution. However, a correct answer might look like this.

- | | |
|---------------------|-----------------|
| a) Basic food items | b) Tinned food |
| Hygiene articles | Drinks |
| Kerosene | Household items |
| Sundries | Cigarettes |

The Stock Range

Some people in Smalltown have decided to start a co-operative shop. It has not yet been determined what goods should be sold in the shop. A number of suggestions have been forwarded to the secretary of the committee, who made this summary.

Kind of goods wanted	Reasons
Fruits and vegetables	Local products are sold by farmers at the market, but you cannot be sure of finding what you want. Prices vary greatly.
Bread	There is no local bakery. Many people complained about this.
Meat	The local butchery is only open in the morning and is always very crowded.
Basic food items (cereals, cooking oil, sugar, tea, etc.)	Most people require these daily, but it is sometimes difficult to get them from the existing private shops.
Dairy products	Fresh milk is not available in Smalltown and some people have complained about this. (The regional dairy requires distributors to have cool-storage facilities.)
Tinned food	A greater variety than what is now available could be provided and easily stored.
Drinks	At present, drinks are available only at bars charging high prices. Still, those seem to sell quite a lot.
Cigarettes	About half of the male population are smokers, and cigarettes are sold everywhere.
Hygiene articles (soap, detergent, toothpaste, etc.)	Such items are in daily demand and available in several shops.
Household items	There is a special shop for such essential items, but prices are very high. (A few common items are sold at the market.)
Kerosene	Most people use kerosene lamps; kerosene is sold in three shops.

cont. overleaf

Kind of goods wanted	Reasons
Tools and implements	There are few available in Smalltown. People generally have to go to Maintown to find what they need.
Clothes and shoes	Several people complained about the poor assortment of clothing and shoes in the Smalltown shops.
Books and magazines	Almost none are locally available.
Tapes and records	Some youngsters have tape recorders or record players but no place to buy tapes or records.
Sundries (matches, batteries, ball-point pens, etc.)	Such small things are often quite essential and are not readily available.

The committee has just studied the list and finds the real demand for co-operative services very encouraging - but it also realizes that the members want many more goods than the co-operative can offer, at least in the near future. The committee discusses how to best use the resources of the society for the benefit of its members.

Assignment

Assume that you are a committee member. You know that the society can only afford to maintain a store stocking four to eight kinds of goods.

- a) From the secretary's list, select four kinds of goods to be sold from the opening day.
- b) Rank an additional four to be stocked as soon as you know you have the necessary resources.
- c) Be able to justify your selection so that the members will accept it.

SESSION 3.2HOW TO SELECT AN ASSORTMENT OF GOODS

Objective: To enable trainees to identify available sources of information and proper criteria for the selection of a basic assortment of goods.

Time: 1 hour.

Material: Case-study "Who Knows Best?"

Session Guide:

- 1) Remind the trainees of the basic question with regard to stock range: which groups of goods - in broad terms - should a co-operative offer its members? (This was the topic of the previous session.)

Ask the trainees what the next step should be in the process of deciding the stock range. It is:

- to identify all the specific items within the selected groups to be stocked.

Illustrate by example. For instance, if it has been decided that a shop should sell "household items", it must now be decided exactly what specific items should be sold. There are hundreds of items to choose from: kitchen utensils; cooking pots and pans of all kinds and sizes; cutlery; chinaware, simple or more expensive; basins of stainless steel, aluminum, plastic or glass; etc.

Ask the trainees how this selection should be made - what determines whether or not an article should be included? They should mention these criteria:

- Large popular demand. (Since the shop must buy its goods in wholesale quantities, it must be able to sell these large amounts in a relatively short period of time.)
- Regular (constant) demand. (The shop should supply its members with the things they need on a regular basis.)

- Necessity. (Salt is a good example here - an essential commodity even if normally used in small quantities.)
- Price and quality. (These must be acceptable to members.)
- Availability. (Obviously, the shop must be able to arrange a regular supply of the commodities in question.)
- Expense. (Expensive articles should be excluded if they take too much of the money available.)
- Storage capacity. (The shop should not deal in articles for which it has no proper storage facilities.)

- 2) Explain that these criteria are crucial. The co-operative can only be successful if the assortment of goods is the best possible one, considering both the needs of its members and its own financial resources. Remind the trainees that a new co-operative is not likely to have much money and that therefore the assortment of goods it can offer must often be limited. Consequently, it is vital to consider the above criteria very carefully. The question is: who does know best? Who can help select the best possible assortment of goods?

Divide the trainees into groups of about five members and distribute the case "Who Knows Best?". Give them up to 20 minutes to complete the assignment.

- 3) Ask representatives of each group to present their answers. Suggested methods should be written on the chalkboard or on large sheets of paper and their advantages and disadvantages discussed. Sample answers follow.

Method	Advantages	Disadvantages
Ask members	<p>Direct - members will detail their own expectations.</p> <p>Democratic, if every member is asked.</p> <p>Personal - likely to make members feel directly involved with their shop.</p>	<p>Time-consuming.</p> <p>Perhaps impossible to ask every member.</p> <p>People may answer with what they want rather than what they can really afford to buy.</p> <p>Members may not know the goods available or their price.</p> <p>Those requesting items which are ultimately not included in the stock range may be disappointed.</p>
Ask the committee	<p>Trusted to represent the members.</p> <p>Knows the general needs of members.</p> <p>Should know more about shop management than the membership at large.</p>	<p>The committee may not be genuinely representative of the membership.</p> <p>Committee members may look too much to their own needs.</p> <p>May not actually know enough about available goods.</p>
Ask experts (shop manager, co-operative union or government officer)	<p>May be familiar with what people are buying in similar shops.</p> <p>May know what goods are available as well as prices and qualities.</p>	<p>May not be familiar with the local situation.</p> <p>May not be as experienced as they pretend to be.</p>
Ask the wholesalers	<p>Informed about available goods.</p> <p>Knowledgeable about demand for goods.</p>	<p>May try to get rid of old stock.</p> <p>May recommend items which are more profitable to the wholesaler than the co-operative.</p>
Survey other shops	<p>Examining the actual stock range in other shops should give a good indication of customer demands.</p>	<p>The actual stock may not reveal which items are "not selling" and which possible "big sellers" are missing from the shop.</p>

- 4) Ask the trainees what they learned from the case. It is important that they perceive the following points.
 - All methods have their own important advantages and disadvantages to be considered.
 - A combination of methods is likely to give the best result. For example:
 - a) An expert could provide a standard list of a basic assortment.
 - b) Availability and prices could be checked with wholesalers and the list adjusted accordingly.
 - c) Some "average" members (a typical sample) could review the list to see how it meets with their demands.
 - What methods a co-operative should use depends very much on the local situation.

- 5) Stress that selection of the right basic goods assortment is very important in getting a shop off to a good start for restart) - but it is never definitive. An equally important management task is the continual development of the stock range.

"Who Knows Best?"

It has been decided that the Smalltown Co-operative will deal in basic food items, hygiene articles and a few other necessary things. Money is now available for purchase of a stock of goods. But who is to decide exactly which items should be bought? The committee discusses the matter below.

- We can only afford to stock the items most demanded by the members. Nobody could know what these are better than the members themselves. We should ask them.
- The committee has been elected to represent the members. We should decide on their behalf.
- We have employed a qualified shop manager. We should trust him and let him decide on the goods.
- Are there no experts who could advise us? I suggest we enquire at the Co-operative Union or the Co-operative Department.
- The wholesaler could advise us what to buy.
- We could take a look at some other shops and see what they are selling.

Assignment

Identify all possible sources of information which might be useful in selecting a basic assortment of goods. List the advantages and disadvantages of each.

SESSION 3.3ECONOMIC PURCHASE

Objective : To enable trainees to use the money available for purchase of goods in the optimal way and to explain the relationship between available capital, purchase intervals, assortment of goods, sales and gross surplus.

Time : 1 - 2 hours.

Material : Exercises "Purchase Intervals",
"Quantity Discount".

Session Guide :

- 1) Distribute copies of the exercise. (If the exercise is adapted to local conditions, note that figures should be chosen to render the calculations fairly simple, with obvious conclusions.)

Ask the trainees to read through the paper. Meanwhile, draw a table like the one below on the chalkboard. Do not as yet fill in any figures.

Purchases

Item	1st week		2nd week		3rd week		4th week	
	Bags	Cost	Bags	Cost	Bags	Cost	Bags	Cost
Sugar	2	400	2	400	2	400	2	400
Rice	1	400	1	400	1	400	1	400
Maize flour	2	600	1	300	2	600	1	300
Wheat flour	1	200	-	-	1	200	-	-
Total cost		1,600		1,100		1,600		1,100

Show the trainees how to begin the exercise by filling in some of the figures in the table. Then ask them to complete their own copies, finding the answers to all questions in the paper. Assist them as needed. Allow about 20 minutes for this assignment.

- 2) Ask for the answer to question 1a). (This can be read directly from the table on the previous page.)

Ask for the answer to question 1b). (This can also be seen from the table.) Note that a maximum \$1,600 is needed for weekly purchases but that \$1,100 is sufficient for every other week, because some goods will remain in stock; purchases can be reduced. If purchases are made fortnightly, \$2,700 is needed; a capital of \$5,400 is needed if purchases are made only once a month. Point out that \$1,600 is enough to keep a stock of four commodities in the first case (weekly purchases), whereas in the second case (monthly purchases) all the money is spent on the stock of sugar.

Ask for the answer to question 2a). From the table, it can be calculated that the gross surplus for the month amounts to \$540. Emphasize that this is attained when goods are purchased weekly with only \$1,600 invested in the stock.

Gross surplus in one month:

Sugar	8	x	\$20	=	\$160
Rice	4	x	\$40	=	\$160
Maize flour	6	x	\$30	=	\$180
Wheat flour	2	x	\$20	=	<u>\$ 40</u>
					\$540

Ask for the answer to question 2b) Obviously, when it has to use all available money for sugar, the society will make a surplus of only \$160 in a month. No other goods can be stocked or sold because all the money has been used to buy sugar.

Ask the trainees what conclusions they have drawn from these exercises. Make sure they understand that:

- less money needs to be invested in goods if purchase intervals are short;

- shorter purchase intervals make it possible to afford a wider assortment of goods.

They should also understand that a wider assortment of goods will increase the sales and thus the total gross surplus.

- 3) Have the trainees look at the table again. Why is it not possible to spend less than \$200 on wheat flour, even when the purchase interval is one week?

The obvious reason is that the minimum wholesale quantity is one bag, i.e. 50 kg. The society actually needs only 25 kg (half a bag) at a cost of \$100 per week but it has to buy the full bag at \$200 instead.

Suppose the society sells only 5 kg of wheat flour a week. Ask the trainees how many "extra" kilos the society has to purchase and the cost of that extra quantity. (Correct answers are 45 kg and \$180.)

Explain that, in this case, a gross surplus of only \$2 a week is earned on the sale of 5 kg of wheat flour. Nothing is earned on the other 45 kg that remain in stock. Thus, the \$200 spent on wheat flour yields a weekly gross surplus of \$2. Compare this with the \$200 spent on sugar which results in a weekly gross surplus of \$20 because every kilo is sold.

The point is that no gross surplus is earned until a commodity is sold. Therefore, purchase of goods likely to remain in stock for long periods should be avoided.

- 4) Let the trainees know that so far the examples have been kept simple to illustrate the most important rule of stock management: purchases made at short intervals and in small quantities are usually the most economical. But there might be exceptions.

Give the trainees about ten minutes to find arguments against short purchase intervals and small quantities. Let them work together in groups of two or three.

Then discuss their arguments with the whole group. Typical responses:

Arguments	Comments
Preparing an order and carrying out the purchase take time - frequent ordering increases work.	The resulting wider assortment of goods, increased sales, and higher gross surplus are usually worth more than the extra work.
Frequent purchases will increase transport costs.	The increased costs will probably be covered by increased income from the sales.
Purchase of small quantities could lead to "out-of-stock" problems in the shop. There is no "buffer stock" in the shop if supplies are not delivered on time.	A difficult problem. It is generally advisable to purchase a little more than you expect to sell. Larger buffer stocks or rationing could be introduced if supplies of important items are often irregular. On the other hand, goods may deteriorate or be spoiled if stored too long. Frequent hoarding can make it difficult to revert to normal sales practice.
Purchase in large quantities might render lower prices ("quantity discount").	This is bad business practice if the goods remain unsold for a long time. It could be good business if it makes it possible to sell more goods at reduced prices.
Inflation could increase the value of the stock.	A high rate of inflation could make it profitable to purchase large quantities of goods when price increases are expected. But the negative effects of large stocks and the danger of deterioration must be considered.

5) Distribute copies of the exercise "Quantity Discount". Allow some ten minutes for the assignment. Then ask some trainees to show how they have calculated the answers.

a) 5 boxes @ \$240	\$1,200 (one by one)
5 boxes	<u>\$1,140</u> (five at a time)
Quantity discount	\$ 60

b)	<u>One by one</u>	<u>Five at a time</u>		
Selling price per box	\$ 270	\$ 270		
Cost price per box	- 240	- 228		
Gross surplus per box	30	42		
Gross surplus per week	\$ 10	\$ 14		
(One box is sold in three weeks)				
c)	<u>One by one</u>	<u>Five at a time</u>		
Gross surplus per week	\$ 10	\$ 14		
Invested capital	240	1,140		
Gross surplus per \$100 invested	$\frac{10}{2.4} = 4.17$	$\frac{14}{11.4} = 1.23$		

Some trainees may object that these figures hold true only briefly because the capital invested in stock is as indicated above only immediately after the purchase. (It will gradually become less as the cocoa is sold.) The above calculation is valid only if the money collected from the sale of cocoa is kept until it is time to renew the stock. In practice, it is likely to be used for purchase of other goods. Therefore, it is more correct to say that on average only half of the amount spend on purchase is actually invested in the stock. This would change the figures as indicated below.

	<u>One by one</u>	<u>Five at a time</u>		
Gross surplus per week	\$ 10	\$ 14		
Invested capital (average)	120	570		
Gross surplus per \$100 invested	$\frac{10}{1.2} = 8.33$	$\frac{14}{5.7} = 2.46$		

(Either of the calculations may be used, since the conclusion will be the same, of course.)

Ask the trainees to raise their hands to indicate their purchase recommendation (single box or five at a time). Ask someone in favour of one box to explain why.

- The discount will increase the gross surplus on cocoa by \$4 a week. But the society must use much more capital to get this small increase. If the same amount were to be spent on pur-

chase of other items in demand, the society would probably earn more money.

Thus the trainees should come to the conclusion that the society could earn more gross surplus if only one box is purchased and the rest of the capital is used for purchase of other goods - provided those are demanded items.

Assignment, cont.

- 2) a) Assume that the society has only \$1,600 available for purchase of goods. This allows it to purchase a stock of all four commodities weekly. Calculate how much gross surplus the society will earn in this way in one month.
- b) Assume that all the available money is used instead to buy 8 bags of sugar, which will last for one month. How much gross surplus will the society earn in this way in one month?

Quantity Discount

A wholesaler is offering the following:

Cocoa, box of 30 tins

1 box	\$ 240
5 boxes	\$1,140

The selling price per tin is \$9.00. A certain co-operative shop usually sells about ten tins a week.

Assignment

- a) Calculate the discount if the shop buys five boxes at a time instead of one by one.
- b) How much is the gross surplus on cocoa per week
 - if one box at a time is purchased?
 - if five boxes at a time are purchased?
- c) How much is the gross surplus per week on each \$100 invested in the stock of cocoa
 - if one box at a time is purchased?
 - if five boxes at a time are purchased?
- d) Would you recommend that the co-operative purchase one or five at a time?

Session 3.4

HOW TO DEVELOP THE STOCK RANGE

Objective : To enable trainees to maintain and develop an assortment of goods, considering increase in resources, changes in customer demands, introduction of new products, and supply problems.

Time : 1 - 1 1/2 hours.

Material : Case-study "Unwanted Merchandise".

Session Guide :

- 1) Ask the trainees why the original assortment of goods for a co-operative shop will sooner or later be changed. The co-operative will stop selling certain items and start selling others. Why?
 - Low demand. Too few customers buy a particular commodity.
 - Supply problems. An article is no longer available from wholesalers.
 - New products. Wholesalers offer new commodities.
 - Increased capital. The co-operative has more money for purchase of stock.

- 2) Divide participants into groups of some five members and distribute the case-study "Unwanted Merchandise". Allow the groups up to 30 minutes to complete the assignments.

- 3) Reconvene the groups. Ask a representative from one group to explain why he thinks the customers do not buy the tea and if he recommends its exclusion from stock. Ask the other groups if they came to the same conclusion. Request comment from another group on the tomato sauce, and so on.

The intent of the case is to make trainees aware that a shop manager must observe which items do not sell well, find the likely reason, and take action. There might be several possible explanations and appropriate actions.

Commodity	Explanation	Actions
Black Bond Tea	<p>Less expensive in large packet.</p> <p>Customers may prefer other brands.</p>	<p>Stop selling tea in small packets.</p> <p>Change to or add another brand.</p>
Harrold's Tomato Sauce	<p>More expensive than the ordinary type.</p> <p>Customers may like bottles better than tins.</p> <p>Customers may not be familiar with this brand.</p> <p>Customers may dislike this brand.</p>	<p>Replace a familiar item with another only if equal in price and quality.</p> <p>Sell out the tins at reduced price.</p> <p>Purchase Henry's again or, if it is no longer available, try to find another brand in bottles.</p>
Razor Blades	<p>Customers did not know that the shop was selling razor blades.</p>	<p>Display the razor blades so that they will be noticed by the customers.</p>
Crafts Cigarettes	<p>Advertising has convinced many smokers to change to other brands.</p> <p>Smokers find new brands more tasty.</p> <p>Crafts are expensive compared to other brands.</p>	<p>Exclude Crafts from the stock range.</p>
Cheapy Soap	<p>Customers tried it because of the low price but did not like it.</p>	<p>Exclude this soap from the stock range.</p>

Commodity	Explanation	Actions
Mary Biscuits	The private trader has temporarily cut the price to attract more customers.	This is not a stock range problem but a marketing problem. Keep the biscuits.
	The private trader buys large quantities and gets a discount.	If the co-operative cannot sell at the same low price it might be better to exclude the biscuits from stock.

- 4) To get the groups' answers to question 3, invite one trainee from each group to step forward. Ask some of these to argue for and some against the purchase of substitute goods when those normally purchased are not available at the wholesaler. Other trainees may join as advocates pro or con.

Arguments for purchase of substitutes:

- A shop without stock cannot benefit its members.
- The co-operative must sell a certain amount of merchandise to meet expenses.
- People will accept substitute commodities, especially if they realize the one they are used to is not available.

Arguments against purchase of alternative goods:

- A shop stocked with goods that the customers will not buy can give neither benefit nor income.
- The co-operative may run short of money when the more familiar commodities become available again if substitute goods have already been purchased.
- Many customers are reluctant to buy unfamiliar goods.
- If the co-operative purchases whatever happens to be available at the wholesaler, members cannot trust that their demands will be satisfied.

- If the best (most popular) brand of detergent, for example, is out of stock and is replaced by an alternative one, most customers will stop buying it as soon as the original one becomes available again.

From this debate trainees should appreciate that purchase of substitute goods must be done with great care.

- 5) Offer the following example for discussion:

A co-operative operating the only shop in town has decided to purchase goods weekly instead of every other week. It will purchase goods in smaller quantities and therefore be able to afford a greater variety of commodities than before. Batteries, for example, have so far only been sold in medium size, the standard type. Some customers have asked for the same size but in the more expensive long-life type. Other customers claim they cannot use the medium size at all but need small size batteries.

Ask the trainees which battery they recommend the co-operative add to its stock if they can afford only one more type: the long-life medium size, or the smaller size.

The correct answer is the small size batteries. Customers requiring that size do not now buy any batteries in the shop but want to do so. By meeting that need, the co-operative will provide better service, and its total sales and gross surplus will also increase. Those wanting the medium size long-life type today buy the standard type. If the shop were to start selling the long-life variety, the customers might buy it instead, but the total sales would remain approximately the same.

The point to be emphasized is that when a co-operative can afford to expand its stock range, commodities should be selected that are most likely to increase sales and improve service.

Unwanted Merchandise

Jim is the manager of Ruhawa Co-operative Shop. He is preparing the weekly order and as usual he checks what is left in stock before ordering. He notices that there is almost the same quantity of some merchandise as last week. He is quite sure that it is a rather long time since these goods were last ordered. Why don't these items sell?

Black Bond Tea, packets of 125g at \$4.20

The same brand is also sold in 250g at \$7.60, a size that outsells the smaller one. Jim knows that most people drink a lot of tea; he is surprised that they do not buy more tea in his shop. He checks to see if other shops charge less. They do not, but they do stock some other brands.

Harrold's Tomato Sauce in tins, \$3.30

The co-operative usually sells Henry's tomato sauce in bottles at \$2.25. But the last time Jim ordered tomato sauce, Henry's was not available at the wholesaler. Jim was advised to replace it with Harrold's.

Razor Blades, standard type, \$2.20 per packet

Jim opens the drawer of the counter where small items are kept. He finds that the whole stock of razor blades is still there, untouched.

Crafts Cigarettes \$3.50 per packet

This brand was very popular last year. Now most people smoke Corfu and Black Panther.

Cheapy Soap, \$0.50 per piece

This low-priced soap was introduced two months ago. It sold extremely well in the first few weeks; nobody wanted any other brand. But now only the old well-known brands are selling again.

Biscuits Mary, \$2.75 per packet

These have always been very popular biscuits, but sales have dropped lately. Some customers have complained about the price. They claim a private shop charges only \$2.50 per packet. Jim went there to check and found plenty of biscuits displayed. He had no problem finding the low price - it was written in big figures on a poster.

Assignment

- 1) List as many reasons as possible why customers do not buy the commodities mentioned.
- 2) Which commodities do you advise the Ruhawa Co-operative to exclude from its stock range?
- 3) When Jim finds that something he has planned to purchase is not available at the wholesaler, he could either buy another commodity or he could save the money until the item he wants can be obtained again. Discuss and note advantages and disadvantages of these two alternatives.

topic

4

sales and services

Session 4.1 Co-operative Salesmanship

Session 4.2 Service

Session 4.3 The Sales Process

SESSION 4.1CO-OPERATIVE SALESMANSHIP

Objective: To enable trainees to explain the meaning of "co-operative salesmanship" and the need for good salesmen in a co-operative shop.

Time: 1 hour.

Session Guide:

- 1) Draw the following table on the chalkboard, without filling in any figures as yet.

Monthly sales	\$25,000	\$30,000	\$20,000	\$15,000
Gross surplus (Average trade margin 10%)	2,500	3,000	2,000	1,500
Monthly cost of running the shop	2,000	2,000	2,000	2,000
Net surplus (loss)	+ 500	+ 1,000	0	- 500

Tell your trainees that a certain shop had monthly sales of \$25,000 and operating costs of \$2,000. Fill in these figures in the first column of the table. The shop had an average margin of 10%. Show the trainees how to calculate the gross and net surplus.

Have each trainee calculate the net surplus or loss if sales were \$30,000, then \$20,000 and finally \$15,000. They should assume that the margin and the operating costs remain the same. Point out that in most shops salesmen can probably increase sales without increasing running costs by much. After each example, ask the trainees for the surplus or loss and fill in the table accordingly.

Emphasize the conclusion that profit or loss depend to a great extent upon the quantity of goods sold. This applies to any kind of shop. It is as important for a co-operative shop as it is for a private or state-owned business to achieve a level of sales sufficient to cover operating costs and avoid loss.

- 2) Ask the trainees what a salesman might do in order to sell more. Encourage them to mention all possible ways of increasing sales. They should not question at this stage whether or not the means suggested would be acceptable in a co-operative shop.

Note each suggestion on the chalkboard. Try to elicit most of the means of sales promotion listed below. Ask trainees to copy the list. Illustrate each suggestion so that the trainees better understand and remember it. Ask the trainees to give other illustrations.

Means	Illustrations, examples
<u>Be polite and friendly</u> so that customers feel welcome and enjoy visiting your shop.	- "Good morning, Mrs. Rama. Can I help you?" - "Welcome again, Mr. Jason."
<u>Offer quick service</u> Attending to customers is the first duty of a salesman. Any other work must wait.	A salesman is arranging goods for better display. He stops as soon as he sees a customer.
<u>Display the goods</u> so that customers can readily see what is available.	- "Please take a look at our selection of bowls and cups. I'm sure you will find something suitable, Mrs. Comoro."
<u>Promote by talking</u> so that customers take notice of certain items. Try to interest them in buying something they had not originally had in mind.	- "We have a very nice shipment of oranges just in." - "Have you seen these nice bath towels, Miss Asila?"
<u>Promote by advertising</u> so that customers spot certain goods and become interested.	A nice poster with large letters: "Fresh Orange Juice \$ 2.00/bottle"
<u>Satisfy the needs</u> of the customers.	- "I think this green T-shirt is what you are looking for, Madam. Pure cotton and medium size."
<u>Explain about your goods</u> so that customers know how to benefit from them.	- "This is a very strong piece of cloth. It will not shrink, but be careful when washing it the first time because the colour may bleed a little."

Means	Illustrations, examples
<u>Provide information about new goods</u> or goods not found in the shop every day.	- "Have you tasted this new lemonade, Mrs. Miller?" - "Today we have got a nice selection of chickens."
<u>Remind the customers</u> about goods they might forget to buy.	- "Nothing else you need today, Mrs. Belah? Sugar, margarine, bread..."
<u>Suggest alternatives</u> if a wanted item is not available.	- "Sorry, Crown Biscuits are out of stock. But have you tried Rex? They are very popular."
<u>Suggest complementary items</u> which might be useful together with the item sold.	- "You have chosen an excellent pair of shoes, Sir. Would you like some shoe polish in the same colour?"
<u>Allow trials and tests</u> when customers are not sure the items are suitable.	- "Perhaps you would like to try the sweater on?" - "We are introducing a new lemonade. Would you like to taste it?"
<u>Offer gifts</u> on special occasions, anniversaries, etc.	- Put up a large poster: "Free shopping bag to all members on our Anniversary!"
<u>Offer a bargain price</u> to customers who have to bargain.	- "Okay, you'll get it for \$12.50. That's a special price for you."
<u>Reduce the price</u> to get rid of goods which have been in stock too long.	- "This fruit is very ripe and needs to be eaten today. I'll sell you what is there for half price."
<u>Offer a quantity discount</u> for goods sold in large amounts.	- Advertising poster: "Buy five bars of soap and get one free."
<u>Offer credit</u> if a customer does not bring enough money.	- "Don't worry, Mr. Sands. You can pay the balance next week."

3) Discuss which of these methods can be used in a co-operative shop. Ask the trainees to look at them from the member/customer point of view. What would the members like or dislike? Mark the methods on the chalkboard with + or - accordingly.

Some methods may not be clearly liked or disliked. Discuss those methods thoroughly. Try to get comments like the following.

Means	Comments
Promote by talking, reminding about news, suggesting goods, etc.	A customer appreciates it if a salesman makes him notice or remember something he would really like to buy. But he does not want to be troubled by a too-talkative salesman who tries to persuade him to buy things he really does not want.
Explain about the goods.	Customers like to know the good points and the characteristics of goods. They dislike statements which later prove false or exaggerated.
Reduce the price, offer discount, etc.	<p>Everybody appreciates a low price. But if a shop occasionally offers discounts, the customers never know for sure whether they are paying the lowest possible price or not. If bargain prices are offered to some customers, others will feel cheated.</p> <p>A co-operative price is a low fixed price, the same for all members. Any discount or reduction should be fair and open to all members.</p>
Offer credit.	Credit may be appreciated by a customer who did not bring enough money. But it can also cause problems, because people spend more than they can afford. Therefore most co-operatives do not allow credit.
Offer gifts.	Gifts must be distributed fairly and only for the purpose of promoting sales.

- 4) Sum up the session by asking trainees to state in a few words the meaning of "co-operative salesmanship". The answer should reflect these two important aspects:

serving the members and selling as much as possible.

Make sure that everyone fully comprehends the following points:

- Selling "as much as possible" does not mean inducing the members to increase their consumption; that is not the aim of a co-operative shop. But if many people come to the co-operative to buy everything they need, the sales will increase. The increased

sales, in turn, will improve the economy of the shop. Stock range can be increased and prices reduced; thus the members themselves gain from the increase in sales.

- A co-operative salesman should always do his best to help customers find what they need.
- A co-operative salesman should not persuade people to make purchases which they may later regret.

SESSION 4.2SERVICE

Objective : To enable trainees to appreciate the concept of "service"; to identify and understand the members' need for service and the way to create a pleasant atmosphere in a shop.

Time : 2 hours.

Material : Dialogue "Good Service".
Briefs for role plays "Service".

Session Guide:

- 1) Let the trainees know that they are going to listen to a dialogue between James, a salesman, and Anne, one of his customers. After the dialogue the trainees should be prepared to tell why they think Anne likes to do her shopping in James' store.

Play the pre-recorded dialogue on a tape recorder or ask two trainees to read it. (They should have rehearsed it earlier.)

Allow the trainees a few minutes to make notes and to discuss the case in small groups before offering their comments. Note their responses on the chalkboard under the heading "Customer's Benefits":

- Anne is treated like a friend. She finds it nice to deal with a salesman who knows her and on whom she can rely.
- Anne gets the items she wants even when some extra effort is required (sharing a packet of rice, putting aside some sugar, reserving salt). James even knows which cooking oil she prefers.
- Anne gets advice. James informs her about a new detergent which is likely to be a better choice for her.
- Anne gets special favours. She gets a discount and a box to carry the goods.

Altogether:

- Anne gets very good service.

2) Emphasize that James, by offering good service, manages to sell a lot. Ask the trainees what James himself gains from that. Note their answers on the chalkboard under the heading "Salesman's Benefits":

- Income. James earns his living as a salesman. Good sales guarantee that the business will continue and generate a secure income to him.
- Satisfaction. The good service is appreciated by the customers. James feels that he is respected and liked. He enjoys the job.

Trainees should agree that both customers and salesmen benefit from good service.

3) Ask the trainees if they can picture James working in a co-operative shop. Ask some of those who do not think so for their reasons. They are likely to mention that James seems to give special favours or service to one customer, but not to others.

List examples of such services on the chalkboard.

- Discount.
- Free packing material (a carton, free of charge).
- Supply in spite of shortages (the sugar had been set aside).
- Personal reservations (salt was to be reserved).
- Splitting standard packages (the rice bag was split).

Ask the participants if they think that other customers also want such favours. Repeat the question for each service in turn and note the opinion of the majority. You should get a table something like this.

<u>Services</u>	<u>Wanted by</u>
Discount	all
Free packing material	some
Supply in spite of shortages	many
Personal reservations	a few
Splitting standard packages	a few

Obviously, the desire for special service varies from one customer to another. Ask for examples of other services which would be appreciated by some customers and add them to the list. Again, ask if every customer would want that service. While the answer is probably no, there would certainly be problems if the same service could not be offered to everyone wanting it. For example, there might not be enough empty cartons or sugar to meet the demand.

Ask the trainees whether other customers would suffer if some customers are given discounts in a co-operative shop. The correct answer is yes, because such a practice will reduce the surplus which belongs to all members.

- 4) Present the following case to the trainees:

"Sugar has been out of stock in all shops for a month. But now a co-operative society has managed to get a supply of it. Even before the shop is opened in the morning, a crowd of people begins lining up in front of the door. The manager knows there is not enough sugar for all of them. The stock will be finished very fast."

What would the trainees advise the manager to do by way of providing the best service? Have them discuss the case in small groups before presenting their solutions.

When all suggestions have been made, ask the trainees to vote for the one they think best. Emphasize that the best solution satisfies as many members as possible. (A good manager would also do something about the waiting-line itself.)

- 5) Sum up what has been discussed in this session so far. The following basic points about service in a co-operative shop should be elicited:

- Different customers require different services.
 - A customer should be given the special individual service he needs, as long as it does not affect service to other customers.
 - Services very much in demand should be offered to all customers (or as many as possible).
 - Services must be offered in a just way. The co-operative may give priority to its members if a particular service cannot be offered to all customers.
- 6) Tell the trainees they are now going to watch some "plays" to provide ideas for discussion about the concept of service - what we mean by it and how we can provide it in our shops. Some trainees will be asked to play the role of salesmen or customers. The others will observe and subsequently discuss the way the salesman served the customer.

From the role plays included here, select those most relevant and/or prepare others which might better fit the local situation.

Select a salesman for each role play. Give each the salesman's brief (instructions) and ask him to prepare to receive the customers and offer services in a way he thinks appropriate.

Distribute the customer briefs to all other trainees. Let them read these and decide which customers they would like to play. Select a player for each customer role, as far as possible in accordance with their wishes. (It may be a good idea for the instructor to take the role of Customer A to "break the ice" and give a good example of how to play a part.) Allow a few minutes for the players to "think themselves into the roles".

In the meantime, make a simple arrangement in front of the room with a desk and some things which can represent the goods to be sold in the "shop".

Ask Salesman A to leave the classroom for a minute, while Customer A introduces her/himself, referring to the brief and giving some additional information, so that everybody understands what specific

type of customer she/he will play. If the player does not seem to be quite clear about the role, explain how she/he should behave.

Call Salesman A. Emphasize again that the salesman should do his best to offer good service. Then ask the players to perform with the other trainees as audience.

After the play, invite comment on the salesman's way of serving the customer. The audience should mention what was done well and suggest possible other services.

Repeat the procedure with the role plays that follow (Salesman B and Customer B, etc.).

Special comments for each play:

A The salesman should be very careful not to sell a substitute for the out-of-stock item if it does not fully satisfy the customer.

B There is no need to waste time with unnecessary questions and suggestions when customers know exactly what they want and are in a hurry.

Asking this customer to wait for change is not acceptable; another solution must be found.

C Taking time and just talking with a customer who likes it is also a kind of service. But discuss what the salesman should do in case other customers are waiting. (Arrange for two more "customers" to enter the shop soon after Customer C and wait for their turn to be served.)

How well did the salesman explain the features of the goods? What exactly did the customer want to know, and why? Was he satisfied with the explanations given?

D Did the salesman behave so that this customer will come back to the shop? Will he become a "regular" and eventually a member?

E Did the salesman do anything to recruit a new member?

F Did the behaviour of the salesman alter the customer's mood?

G The salesman should give no sign that he is feeling inconvenienced.

H In a co-operative all members enjoy the same fair prices; no special discounts should be given to just a few people.

I If a customer picks up a newspaper and puts the exact change on the counter, he will not really delay service to other customers; it may be good service to accept and even encourage such habits. But discuss the problems of "drawing the line", and whether committee members should have special service.

Conclude the session by emphasizing the all-important rule that a salesman should be kind and polite to all customers. It is a challenge to satisfy all kinds of customers and make them want to return to the shop.

Good Service

Salesman: Good morning, Anne.

Customer: Hello, James. How are you today?

Salesman: Fine, thank you. What can I do for you?

Customer: I would like two litres of milk.

Salesman: Yes, certainly.

Customer: And rice. Three kilos, please.

Salesman: We have bags of two kilos, but I can easily split one bag for you.

Customer: Very good. Then I'll need a tin of cooking oil.

Salesman: You prefer the sunflower oil, don't you?

Customer: Right. That's what I always buy. Then some sugar, please.

Salesman: We are short of sugar now, but I have kept some in the back. Would two kilos be all right?

Customer: Oh, yes, how kind of you, James. Have you got salt, too?

Salesman: Finished, I'm afraid. But we expect some this afternoon. Shall I reserve a packet for you?

Customer: Please do. I'll come for it tomorrow.

Salesman: Anything else you need?

Customer: No ... Yes, I had better buy detergent, too.

Salesman: Try this new brand. It is \$8.50 - a little more than the others, but much more efficient. You use only half as much powder for the same size load.

Customer: Good. I'll try it. That's all, thank you.

Salesman: That will be \$34.75. I'll give you a bit of a discount.
\$34 will be all right.

Customer: Thank you very much, James. Oh, I forgot to bring my
basket.

Salesman: Don't worry, Anne. I'll give you a carton.

Customer: Thanks. Good-bye, James.

Salesman: You are welcome. See you again, Anne.

Role plays "Service"

Briefs for the salesmen

-----Cut

Brief for Salesman A

You are a salesman in a co-operative shop. One of your regular customers comes to buy some food. The third item she asks for (whatever it is) is out of stock.

You know that the customer is careful with her money. She has a big family.

Attend to the customer and try to satisfy her needs.

-----Cut

Brief for Salesman B

You are a salesman in a co-operative shop. You have just sent your attendant to the bank to get some more change, because the cashbox is almost empty. She should be back any minute. And now you have to serve one of your regular customers who usually knows exactly what he wants and often seems to be in a hurry. Let us hope that he has the exact change for his purchases.

-----Cut

Brief for Salesman C

You are a salesman in a co-operative shop. You are now to serve a customer who is well known to you. He is retired and comes very often to the shop just to buy one or two things.

-----Cut

Brief for Salesman D

You are a salesman in the co-operative shop. You know most of your customers quite well but the one before you is not familiar. Perhaps he is new in the village.

-----Cut

Brief for Salesman E

You are a salesman in the co-operative shop. Sugar is out of stock in all shops in town, but now your shop has managed to get a limited supply-

You have been instructed to distribute the sugar in a fair way so that all members will get some. So far you have allowed each member to buy two kilos and you think there is enough stock left.

A man, whom you know is neither a regular customer nor a member, enters and asks for sugar. You must decide on your own how to attend to the customer because the manager is not present.

-----Cut

Brief for Salesman F

You are the salesman in the workers' co-operative shop at a factory. You stock green and black tea. For the time being, green tea is only available in large packets.

The customer who is entering the shop is a worker at the factory. It is raining heavily and he is quite wet.

-----Cut

Brief for Salesman G

You are a salesman in the co-operative shop. You are tired after a busy day. It is closing time. While you are locking the door, a customer comes rushing to the shop.

-----Cut

Brief for Salesman H

You are a newly employed salesman in the co-operative shop. An old friend of yours enters the shop. He often came to see you in the shop where you worked before.

-----Cut

Brief for Salesman I

You are a salesman in the co-operative shop. The shop is full of customers. You are just about to start attending to one of them who has been waiting a long time, when a committee member enters the shop.

Role plays "Service"

Briefs for the customers

Brief for Customer A

You have a big family and a small income so you have to be careful when spending your money. Today you need to buy five specific food items. Write them down on a piece of paper and go to the co-operative shop to buy them. You are a member of the co-operative.

Brief for Customer B

You are a very busy person and plan your shopping carefully. You are a regular customer of a co-operative shop. You appreciate fast and accurate service. Today you need to buy four different items. You know exactly what types, brands and sizes you want. Go to the co-operative shop to buy them. Unfortunately, you have no change, only a hundred-dollar note.

Brief for Customer C

You used to visit your co-operative shop almost daily. Of course, you could plan your shopping better but you like to drop in now and then to buy a few things and to meet some people and maybe hear some gossip. You are retired and have plenty of time.

You now go to the shop and buy two things (for instance, a razor and a tin of marmalade). Take your time, have a chat with the shop attendant about the latest episodes in the village, and ask him about the things you are going to buy, so that you are sure you get quality goods.

Brief for Customer D

You have recently settled in this place. One of your neighbours has told you to try the co-operative shop. Prepare a list of five food items and go to the shop to buy them.

When you have paid, you discover that you need something to carry the goods in. Unfortunately, you did not bring a basket. Ask the salesman to help you.

Brief for Customer E

You know there is a co-operative shop in town but you have always preferred the private shops because you find their service better.

For some time it has been difficult to buy sugar. You have tried all the private shops but failed to get any, although you suspect that some of them keep a stock for "special" customers.

Now you have heard that there is sugar available in the co-operative shop. You rush there to get some. Try to convince the salesman to sell you some sugar even though you are not a member of the co-operative.

Brief for Customer F

You have had a terrible day. In the morning, you overslept. You arrived late to work and received a strong warning. Then you had a bad lunch in a hurry. In the afternoon, you got wet paint on your new trousers. When going home, you had to run to catch the bus. Then you remembered that you had promised to buy sugar and tea. You left the bus and walked to the shop in a heavy rain.

You are really in a bad mood when you enter the workers' co-operative shop.

You want the green tea, medium-size packet.

Brief for Customer G

You are going to prepare dinner when you discover that the cooking oil is all gone. You rush to the co-operative shop to buy some and arrive when the salesman is about to lock the door and leave for the day.

Ask the salesman to sell you some cooking oil before he closes.

Brief for Customer H

You have heard that a friend of yours has a new job as salesman in the co-operative shop. When he used to work in another shop, he always offered you "a special price."

Go to the co-operative to see how he is doing and take the opportunity to buy cigarettes and matches.

Ask him to give you a good price, as usual.

Brief for Customer I:1

You have decided to go to the co-operative shop to buy five things which you have noted on a slip of paper.

Arriving at the shop, you find it crowded with customers and you have to wait for attention. The salesman has just turned to you, when a man enters and insists on being attended to first. You object loudly.

Brief for Customer I:2

When you enter the shop, you find it crowded with people. You want to buy just a newspaper and toothpaste, so you make your way up to the counter and ask the salesman to give you that before he begins serving the next customer. You think that it is O.K., especially as you are a member of the shop committee.

SESSION 4.3

THE SALES PROCESS

Objective : To enable trainees to understand the role and appropriate behaviour of a salesman during the actual sales process.

Time : 1 - 2 hours.

Material Dialogues "The Sales Process I and II".
Briefs for role plays "Selling".

Session Guide :

- 1) Remind the trainees that in the previous session we dealt with the concept of "service". We discussed what we mean by service and what services a co-operative shop should offer. Explain that in this session we will get to the core of a salesman's job.

Ask the trainees to formulate briefly but precisely the basic duty of a salesman in a co-operative retail shop. Try to elicit such statements as "to satisfy the customer's need for goods" or "to find out which goods a customer needs and to sell those things". Tell the trainees that we will now discuss how a salesman can improve his performance during the actual sales process.

- 2) Play the dialogue "The Sales Process I" on a tape recorder or ask two trainees to perform the dialogue "live". (In the latter case, the trainees must be well prepared and know the text by heart.)

Ask trainees to comment on the behaviour of the salesman. Did he manage to satisfy the customer's needs? What were those needs? What else could he have done to satisfy them?

The trainees should come to the conclusion that this was not an example of a professional salesman.

- 3) Tell the trainees that they are going to listen to a good salesman attending to the same customer. Request them to note particularly:

- how the salesman finds out the customer's needs, and
- how he satisfies them.

Play the dialogue "The Sales Process II" or ask two trainees to perform it.

Repeat the dialogue. Stop after each sequence, as indicated in the text, and discuss the points listed below.

Rice

This is an example of an uncomplicated sale. There is no doubt as to what the customer wants to buy. There is just one type of rice, and it is available. This was an easy task for the salesman, like most sales.

Detergent

The customer did not request any particular type of detergent or size of packet. There are several alternatives. Unless the salesman can recall which one the customer usually buys, he should try to determine which detergent will best satisfy her need. He has to ask some questions.

Tell the trainees to assume that the customer does not know much about detergents and has no preference for any specific brand. Ask the trainees what questions the salesman could ask to pinpoint exactly what the customer needs. For example:

- Do you want a detergent for use in a washing-machine or for washing by hand?
- Would you prefer a good but inexpensive type or the more expensive high-quality detergent?
- Do you want to wash in hot or cold water?
- Do you want a very strong synthetic powder? It is very effective, but some people with sensitive skin should not use it.

Tea

When an article is out of stock, a good salesman tries to find an alternative to satisfy his customer. In this case it was an easy task since there was a similar tea in stock.

Ask the trainees to work in pairs for five minutes, one trainee asking for particular items and the other trying to find alternatives.

Conclude by stressing that attempts at substitution must not be overdone. The point is to politely suggest one or two alternatives, not to bully a customer into buying. There are goods for which there is no alternative (salt, for example) and a salesman must accept that he cannot make a sale.

Toys

The customer asked for toys, but what she really wanted was a birthday present for her grandson. If a salesman can learn the real need of a customer, he might find alternative ways to satisfy it.

Give other examples of goods which customers request. Ask trainees to suggest the real needs behind the requests and alternative goods which could meet them. Here are some examples:

Demanded item: -----	Real need: -----	Alternatives: -----
Rice	Basic food	Maize flour Wheat flour
Tinned fish	A dinner Provisions for a journey	Tinned meat Dried fish
Cola	Something to drink	Any soft drink
Lettuce	Vegetables	Any vegetables

Nails

A hammer is hardly useful unless you have got nails. The customer appreciated the salesman's reminder to buy this complementary item.

Ask the trainees to suggest complementary articles to the following items:

Cigarettes	Knife
Shoes	Paints
Wheat flour	Radio
Notebook	A length of cloth
Teapot	Envelopes

Make a summary of the sales process by stressing the method used by professional salesmen. Write the following key words on the chalkboard:

LISTEN

ASK QUESTIONS (to ascertain the needs)

ADVISE (to meet the needs)

- 4) Divide the trainees into groups of three to five. Give them some ten minutes to discuss what specific knowledge a good salesman must possess.

Ask one group to write its answers on the chalkboard/OHP. Then ask the other groups to contribute to the list.

Make sure the following are included:

- knowledge of what goods are in stock,
- knowledge of the characteristics of these goods.

Stress the importance of "product knowledge". The trainees must appreciate that without sufficient knowledge of his merchandise, a salesman can never fulfil his role as advisor to the members. They may look to other shops for the information and advice they need.

- 5) Ask the groups to discuss the vital question:
- How can a salesman learn about the merchandise?

After about ten minutes, ask the groups to list their suggestions on the chalkboard or on large sheets of paper. Included should be:

- Study the text on packages. (The labels often give exact information about contents and use of the product.)

- Study information from suppliers. (The suppliers and manufacturers frequently provide promotional and/or informational material about the products.)
- Read test reports. (Some institutions carry out tests of consumer goods. The results are often published in magazines and newspapers.)
- Use the product. (This may be the most effective way to learn the features of a new product.)
- Ask colleagues in the shop. (They may have used the product or have received information which you missed.)
- Ask for consumers' comments. (The customers will be glad to tell you what they think about the quality and characteristics of various products.)
- Organise courses. (Informal study groups can be formed for this purpose. Participants can share their knowledge and invite specialists to teach about particular commodities, e.g. dairy products, meat products, shoes, etc.)

Ask the trainees to share their experience with the various methods suggested. Try to agree on the most effective methods.

- 6) Conclude the session with some role plays on the sales process. Divide the trainees into groups of not more than ten persons. Appoint a leader for each group, preferably an assistant trainer or an experienced participant.

Tell the groups that they are going to practice salesmanship. Some will act as salesmen, others as customers. Each salesman should try his best:

- to make the customer feel welcome (by greetings, polite manners, etc.);
- to discover the needs of the customer (by listening, asking questions);
- to satisfy the needs of the customer (by offering suitable products, giving advice, suggesting complementary items, etc. - the salesmen are supposed to work in well-stocked shops).

The group members not acting should observe the performance of the salesman. After each play they should comment on what the salesman did well and what he might improve on. They should note especially whether he explained the characteristics of the merchandise in such a way that the customer really understood.

Distribute one set of customer briefs to each group leader. Ask him to appoint actors and to lead the discussion after each play. (Note that the salesmen are not allowed to see the briefs for the customers.)

The Sales Process I

Salesman: Good morning, Madam. What can I do for you?

Customer: I would like two kilos of rice, please.

Salesman: Here you are, Madam.

Customer: I need a packet of detergent, too.

Salesman: Yes, Madam.

Customer: No, not that one. It's very expensive. I prefer White Star.

Salesman: You should have told me earlier. Here you are, a small packet of White Star. That's the cheapest packet we have got.

Customer: Then I would like a small packet of Layton's tea.

Salesman: I'm sorry. Layton's tea is out of stock.

Customer: Okay, I'll try to find it in another shop. Have you got any toys?

Salesman: No, we don't sell toys, Madam.

Customer: No, of course not. That will be all, thank you.

The Sales Process I I

Salesman: Good morning, Madam. What can I do for you?

Customer: I would like two kilos of rice, please.

Salesman: Here you are, Madam. Anything else?

Customer: I need a packet of detergent, too.

Salesman: Which one do you prefer?

Customer: White Star, please.

Salesman: Do you take a large packet or a medium?

Customer: How much is the bigger one?

Salesman: It is \$22. The large one contains as much powder as two medium packets. You'll save \$1 if you choose the large one.

Customer: Good. Give me a large packet, please.

Customer: Then I would like a small packet of Layton's tea.

Salesman: I'm sorry. Layton's is out of stock. But have you tried Green Bond? It is almost the same blend as Layton's, and the same price.

Customer: It doesn't taste lemon or something, does it?

Salesman: No, it is a pure tea without any added taste.

Customer: Then I'll try it.

Customer: Have you got any toys?

Salesman: Not much, I'm afraid. Anything special you are looking for, Madam?

Customer: I would like to buy a present for my grandson.

Salesman: How old is he?

Customer: He'll be ten next week.

Salesman: Then I suggest you buy him an exciting book. Here are some very popular ones.

Customer: Well, I don't know. He doesn't like reading much. He is a very active child.

Salesman: I see. Why don't you give him some tools, Madam. Many children have more fun with real tools than with toys. For example, you can get a hammer for \$25.

Customer: That's a very good idea. I think he would like to get a hammer of his own. I'll take it.

Salesman: Would you like some nails, too? A packet of 100 is \$5.

Customer: Oh, yes. Of course he will need nails! I'll buy a packet. Thank you so much.

Role plays "Selling"

Briefs for customers

Brief for Customer A

Tell the salesman that you are looking for a shirt but do not immediately tell him what kind of shirt you want. Let him find out through questioning.

You want the shirt for yourself. You are not quite sure about your size. You prefer long sleeves, light colours and a pocket. You also prefer a shirt that does not need ironing. You are not interested in extremely modern styles or too-expensive shirts.

Brief for Customer B

Tell the salesman that you are expecting some visitors. You want to serve them something special for dinner. Ask the salesman to help you to find something suitable.

Do not accept his first suggestion; he may come up with better ideas. Buy only what you believe is really suitable. When you have agreed on the basic menu, ask the salesman for further advice about quantity and related matters. You expect eight guests.

Brief for Customer C

You are going to make a dress. Ask the salesman to help you to find suitable cloth. Do not indicate what cloth you might like but ask questions about quality, shrinkage, washing methods, and so on. When you have chosen the cloth, ask him to advise you as to the length needed. You will also require thread and buttons but will forget to buy them unless the salesman reminds you.

Brief for Customer D

Tell the salesman that you would like to buy a torch. Do not tell him exactly what kind you have in mind. Let him find this out through his questions.

handling of goods

Session 5.1 Basic Rules for the Display
of Goods

Session 5.2 Display in Self-service Shops

Session 5.3 Training Staff in the Handling
of Goods

SESSION 5.1BASIC RULES FOR THE DISPLAY OF GOODS

Objective : To enable trainees to display goods attractively, practically and safely in a counter-service shop.

Time : 1 - 1 1/2 hours.

Material : Samples of common goods (empty packets would do).
Pictures (preferably slides) showing the display of goods in various shops. (Alternatively, the session could take place in a shop.)

Session Guide :

- 1) Ask the trainees whether they find the display of goods important or not and to explain the reasons for their opinions. In discussion, try to elicit the view that both customers and staff benefit from a good display.

Conclude that the way of displaying goods will affect:

- a) the sales - customers will prefer shopping where goods are attractively displayed and where they easily can find the goods they want;
- b) the leakage - a safe display may prevent goods from becoming dirty, damaged or stolen;
- c) the job - a practical display makes the handling of goods easy.

Note the key words on the chalkboard: the display must be

ATTRACTIVE - SAFE - PRACTICAL

Explain to the trainees that in this session they will learn some basic rules which will help them to improve the display of goods. All the rules are related to the key words noted on the chalkboard; the first rules to be discussed will help the trainees to make a display attractive.

2) AN ATTRACTIVE DISPLAY

Show slides (if available) which depict good displays (well organised, clean, well-stocked) and bad (disorganised, disorderly, poorly stocked). Do not point out these differences. Ask the trainees to look at the displays with "customers' eyes" and to judge for themselves which of them they find attractive.

Have the trainees discuss in small groups (two or three persons) what makes a display attractive to the customers. After a few minutes, ask for suggestions. Make sure that the following important factors are among those mentioned:

- a) Customers should easily find the goods which they are looking for. The display should be well organised.
- b) Customers should feel confident that the shop will be able to satisfy their needs. Therefore, plenty of goods should be on display.
- c) Customers should find the shop interesting because of the displays of "special offers".
- d) Customers should not fear that what they buy might be damaged or dirty. The display should be clean.

Write the underlined key words on the chalkboard. They will be used as headings for several rules of display.

2a) Well organised

Cite a number of articles which are related to each other, for example different brands of soap, shampoo, toothpaste and toothbrushes. Ask the trainees to suggest a name for this group of goods. It might be "hygiene articles", "toilet articles" or something similar.

Ask the trainees to describe some other common categories or groups of goods which are sold in their shops. Be sure that they understand the meaning of "group of goods". Ask them what the advantages are to both customers and staff if goods belonging to the same group are displayed together.

For customers, group display might make it easier:

- to find a commodity;

- to compare alternative goods;
- to find complementary items that might otherwise be forgotten.

For staff, group display can facilitate:

- checking what goods are in stock;
- showing available alternatives to a customer;
- remembering where different items are displayed.

Such grouping of similar products constitutes the first basic rule in effective display of goods. Note it on the chalkboard or a poster.

*** PLACE THE GOODS IN GROUPS.**

Suggest placing signs as to the group categories over the displays. Customers will find this particularly helpful in self-service shops and those with a wide range of goods.

Now outline for the trainees the situation of a customer wanting to buy tea. He has found the right shelves and sees several types of tea available. On the packets he can read information as to quality and content. What else does he need to know before making his selection? The example should lead to this rule:

*** DISPLAY PRICES CLEARLY.**

Stress that a price label must be placed so that there is no doubt as to which article it applies.

Take the role of a customer standing at a counter (use a desk or a table) trying to read the labels of merchandise on shelves behind the counter. You have difficulty identifying the various goods and their prices. How could such a display be improved? Your trainees might offer the following suggestions:

- Increase the size of the price labels or write the figures on them more clearly. Refer to the previous rule.
- Display the commodity so that the label can be seen by the customers. This points up another rule:

* SHOW THE "FACES" OF THE PACKETS.

- Reposition the counter or the shelves so that customers can get closer to the goods. Display small items under a glass table top or in a small glass cabinet on the counter. This illustrates the rule:

* LET THE CUSTOMERS GET NEAR THE GOODS.

- Even if the customers are allowed to get close, they may still fail to notice goods displayed on the lowest shelves or the highest. People tend to notice things first that are just in front of them. Therefore:

* AS FAR AS POSSIBLE PLACE THE GOODS AT EYE LEVEL.

Ask the trainees what kinds of goods they would recommend displaying high up or low down if space is too limited to permit all goods at eye level. The best answers are:

- large items which would still be readily noticed;
- common goods which customers usually remember to buy without seeing them.

2b) Plenty of goods

Proceed to the second key factor in attractive display: the appearance of sufficient merchandise. First of all, a shop must actually have adequate stock; secondly, it must show that it does.

Explain that this is primarily a matter of ordering the right assortment of goods in the right quantities. This does not mean ordering too much; it would be too costly to stock more goods than could be sold within a reasonable time. (Refer to the sessions on stock management.) "Plenty of goods" refers not to an increase in stock, but to the display of available goods in an impressive way.

Illustrate the point with this example. A shop has quite a good stock range. Its manager has learned to use the working capital efficiently and usually purchases goods in quantities sufficient

for a couple of weeks. Nevertheless, when you enter this shop you get an impression that there is not much available for sale. The shelves look rather empty. (Show a picture of such a shop interior, if possible.)

Ask the trainees to find possible explanations for the poor impression and to suggest improvements. Allow them to discuss the matter in small groups for about five minutes before answering. Their suggestions (to be noted on the chalkboard) should include both explanations and rules for improvements.

- Many of the goods are not displayed but are kept in the storeroom. (This gives the impression of insufficient goods.) To correct this:

*** KEEP MOST OF THE GOODS IN THE SELLING AREA, NOT IN THE STOREROOM.**

- There are just a few items left in stock but new supplies are expected. Naturally, the shelves look empty when most of the goods have been sold. That impression can be corrected if this rule is applied:

*** FILL UP THE FRONT OF THE SHELVES.**

- The selling area appears too large in comparison to the amount of merchandise. To correct this impression, shelves which are not needed should be removed and the display concentrated. It would help to apply the already mentioned rule: "Place the goods at eye level".

20 Special offers

Ask the trainees to cite examples of goods that might be of special interest to the customers, such as:

- goods sold at a lower price than usual;
- goods which have been out of stock for some time;
- a new commodity which has not been sold before;
- seasonal goods which people like to buy just before a holiday;

- old or damaged goods which are being sold cheaply.

The trainees should appreciate that customers would find a shop with such "special offers" attractive. Hence the special offers should be displayed so that they are easily noticed by the customers. Ask the trainees to discuss in small groups of two or three persons how they would like to arrange special displays in their own shops. Stop the discussion after some five minutes and ask for suggestions.

These might include:

- placing the goods outside the ordinary display - at the shop entrance, on or in front of the counter, at the cashier's desk, at the end of a gondola (an island of shelves in a self-service shop) or any other place the customers must pass;
- arranging a window display;
- using posters to draw attention to the special offers;
- setting out baskets, small tables, boxes, trolleys, etc., with special offers;
- letting an attendant demonstrate how to use a new product;
- displaying samples of a product and allowing customers to taste a bit.

Conclude by noting the rule:

*** ARRANGE SPECIAL DISPLAYS.**

2d) Cleanliness

Stress the importance of a clean display; there is nothing attractive about a dirty one! It leads the customer to wonder about the age or condition of your merchandise. The basic rule is:

*** KEEP THE DISPLAY CLEAN.**

2e) Sum up the main rules for an attractive display. (By now these should have been written on the chalkboard or on posters and in the trainees' notebooks.)

Well-organised

- Place the goods in groups.
- Display prices clearly.
- Show the "faces" of the packets.
- Let the customers get near the goods.
- As far as possible place the goods at eye level.

Plenty of goods

- Keep most of the goods in the selling area, not in the store-room.
- Fill up the front of the shelves.

Special offers

- Arrange special displays.

Cleanliness

- Keep the display clean.

3) A SAFE DISPLAY

Ask the trainees how goods displayed in a shop might be damaged or lost. Examples:

- | | | | |
|----|---------------|-----|---|
| a) | Breakage | Ex. | A bottle is placed at the edge of a shelf and is knocked down. |
| b) | Odor | Ex. | Margarine acquires a bad taste of soap because the two commodities have been displayed too near each other. |
| c) | Deterioration | Ex. | Batteries are stored too long so they become discharged and start leaking. |
| d) | Pest | Ex. | Maize flour gets contaminated by weevils. |
| e) | Theft | Ex. | A watch is stolen from the display by a shoplifter. |

Again, note the key words on the chalkboard, and discuss how to arrange a safe display in order to prevent damage and loss:

3a) Breakage

- What goods are breakable?
- What places are not safe for displaying fragile goods?

Conclude by noting the rule:

* DISPLAY BREAKABLES AT SAFE PLACES.

3b) Odor

- What commodities are strong-smelling?
- What products are sensitive to odor?

Conclude:

* KEEP STRONG-SMELLING PRODUCTS AND FOOD APART.

30 Deterioration

- What products deteriorate? (Almost everything in the long run.)
- How can keeping merchandise too long in the shop be avoided?
- How can rapid deterioration be avoided?

Conclude by noting these rules:

* FIRST IN - FIRST OUT.

- (Put the old stock in front when refilling shelves, so that it will be sold first.)

* AVOID DISPLAYING GOODS IN SUNSHINE.

* DISPLAY PERISHABLES IN COOLERS.

* DISPLAY FROZEN GOODS IN FREEZERS.

- (Use a poster to let customers know what goods are kept in a closed freezer.)

(There are other means to avoid loss due to deterioration, for instance ordering smaller quantities. However, this session only deals with the display aspects.)

3d) Pests

- What products particularly attract pests?
- How can goods be kept safe from pests?

Conclude:

*** KEEP FOOD IN SEALED PACKETS.**

*** KEEP THE DISPLAY CLEAN.**

(This also makes the display attractive, as already noted.)

*** IMMEDIATELY CLEAR OUT GOODS WHICH HAVE BEEN AFFECTED BY PESTS.**

(This avoids contaminating other goods.)

*** DO NOT PLACE GOODS DIRECTLY ON THE FLOOR.**

3e) Theft

- What goods are most likely to be stolen?
- Where can shoplifters most easily operate in a shop?

Conclude:

*** ARTICLES WHICH ATTRACT SHOPLIFTERS SHOULD NOT BE DISPLAYED WHERE THEY ARE EASY TO STEAL.**

3f) Ask the trainees to make a summary of the rules for a safe display.

4) A PRACTICAL DISPLAY

Ask about requirements of a practical display. The trainees should cite the following factors:

- a) it should be easy to find a desired item;
- b) it should be easy to see what is left in stock when ordering;
- c) it should be easy to handle the goods with a minimum of lifting, carrying and climbing.

Note these, as above, on the chalkboard.

- 4a) The trainees should realize that the first two prerequisites will be met if the rules for an attractive display are applied. Ask them how.

At least one of the previously mentioned rules will also contribute to reduce the carrying of goods; ask which one. The correct answer would be "keep most of the goods in the selling area".

- 4b) Elaborate on this rule: to minimize the carrying of goods from the storeroom, they should be brought into the selling area in bulk packages and the whole content displayed. This way there will not only be less running to the storeroom, but it will be easier to check what is left in stock, because only full bulk packages will be kept in the storeroom.

Note the rule:

<p>* USE THE ENTIRE CONTENT OF A BULK PACKAGE WHEN REFILLING SHELVES.</p>

Explain that this means that for each commodity there should be space allocated in the selling area for a little more than the content of one bulk package. The display should be refilled before it is finished completely. on occasion it might be difficult to find enough space without intruding on the area allocated for other commodities. Then another rule must be remembered:

* DO NOT PUT DIFFERENT COMMODITIES BEHIND EACH OTHER.

Ask the trainees the possible consequences if this rule is not followed. For example, some packets of tea are put behind packets of coffee. This might lead to:

- customers and staff thinking there is plenty of coffee but no tea.

That, in turn, might result in:

- customers not buying any tea;
- staff miscalculating the quantities of tea and coffee needing re-order.

- 4c) Ask the trainees what other means of displaying goods could make the job of the attendants easier. Allow them to consider the question in small groups for some five minutes. Then ask for their suggestions and formulate these as rules, as below:

* PLACE THE GROUPS OF GOODS WHICH ARE MOST OFTEN REQUESTED WITHIN EASY REACH.

* PLACE HEAVY ITEMS NEAR THE FLOOR.

* PLACE GOODS TO BE WEIGHED CLOSE TO THE SCALE.

- 4d) Finish by making a summary of all the rules for a practical display.

SESSION 5.2

DISPLAY IN SELF-SERVICE SHOPS

Objective: To enable trainees to display goods attractively, practically and safely in a self-service shop.

Time: 1 - 1 1/2 hours (plus half a day for a study visit).

Material: Posters with "Basic Rules for the Display of Goods", produced in Session 5.1.
Pictures (preferably slides) showing the display of goods in various shops. (Alternatively the session could take place in a shop.)
Exercise "Display in a Self-service Shop".

Session Guide:

- 1) Tell the trainees about the Rapid Co-operative Society. It is developing very well and the shop must be expanded. The committee is considering opening a self-service shop to replace the present one where customers are served by attendants. A committee member is against the idea. He is afraid that the customers will find self-service inconvenient and that there will be a lot of theft. Ask your trainees to assist the committee with some arguments in favour of self-service.

Make sure the following principal advantages are among those mentioned:

- the customers will be able to see much more merchandise at close range, which should increase sales;
- with customers serving themselves, the cost of sales personnel will be reduced; it is expected that the same number of employees will sell more goods.

Ensure that trainees appreciate that for a self-service shop to function properly, the advantages must be utilized and the disadvantages avoided. That means extra effort is needed to make the display attractive, safe and practical.

- 2) Ask the trainees to look at the rules for an attractive display. Which of them should be applied in a self-service shop? They will find that all of them are applicable.

Then ask them to do the same with the rules for a safe display. Again they will find them all valid also in self-service shops. But here it might become more difficult to make the display safe against theft. Ask trainees to suggest solutions to that problem, as indicated below.

- Counter-service could be used for things which are particularly attractive to thieves (preferably combined with sale of goods which require assistance by the staff).
- Minor items like cigarettes could be sold by the check-out cashiers.
- Expensive items could be displayed in locked glass cupboards, or samples could be chained to a shelf.
- The display of goods could be organised so that the staff working in the shop could keep an eye on the whole selling area. (Most of such work as unpacking and price-marking could be done in the selling area.)
- Mirrors would enable staff to watch bigger areas.

Illustrate with slides, if available.

- 3) Ask the trainees to look at the rules for practical display. Point out that since customers in a self-service shop are supposed to handle the goods themselves, the display should be practical for the customers, too.

Trainees are likely to find all these rules also applicable in self-service shops. Draw attention to the following rule, if not asked about it by the trainees: "Place the groups of goods which are most often requested within easy reach."

Present the following two alternatives and ask the trainees to think about their advantages and disadvantages from the viewpoint of both customers and the shop manager.

- a) The most-requested goods are displayed together quite near the entrance of the shop.
- b) The most-requested goods are displayed at various places throughout the selling area.

Try to elicit the following arguments pro and con:

a) Most-requested goods at the entrance

- + Convenient for customers who want just these items.
- Those customers would leave the shop without noticing (and possibly buying) all the other goods displayed elsewhere.
- The entrance might become so crowded by customers that others would be discouraged from entering.

b) Most-requested goods distributed throughout the shop

- + Customers will go where the goods are, not crowding into a small area.
- + By going through the shop, customers will notice (and perhaps buy) more goods.
- A customer wanting, for example, just a newspaper would not like to go through the whole shop to get it.

Try to make all trainees agree on a compromise:

- ° Generally, the most-requested items should be distributed throughout the shop so that customers see most of the goods when shopping.

Certain items (newspapers or cigarettes) often bought separately could be displayed at the check-out.

Ask trainees to give examples of:

- "magnetic goods", the items most often requested by a typical customer on the weekly shopping-tour - the way these are displayed will determine how the customer will pass through the shop;
- the items often wanted by customers who come to buy just one or two things.

- 4) Divide the trainees into groups of five to seven persons. Distribute copies of the assignment and the plan of a self-service shop (or ask the trainees to draft plans of self-service shops which are well known to them).

If an overhead projector is available, trainees could be given transparencies of the plan and requested to write the solution directly on the transparency.

Allow some 15 minutes for the assignment. In the meantime, draw the plan on the chalkboard, if an overhead projector is not used. Ask representatives of the groups to present their solutions. Notice particularly if there are different opinions and ask trainees to state the reasons for their choices.

There are no "right" or "wrong" answers but the following comments might be useful:

- 1 Soft drinks are heavy. If customers use trolleys, it is preferable to place the drinks at the beginning of the shopping tour so that customers can put them in the bottom of the trolley. But if the customers have to carry their purchases in a basket, heavy items should come at the end of the tour.
- 2 Hygiene articles are not bought every time a customer visits a shop. But the customers should know where to find them and when passing them, be reminded to buy.
- 3 Cooking oil, (4) dairies and (5) sugar are "magnetic articles", which should be located some distance apart to induce customers to go through the shop. Dairies (milk) require refilling very often. It would therefore be practical to arrange their display close to the storeroom.
- 6 Cigarettes are often bought separately and should be displayed at the check-out. (They are also safer there. Cigarettes are often attractive to shoplifters.)
- 7 The special offer of bowls should be displayed so that everybody will notice it. The short end of a gondola (display island) would be a suitable place.

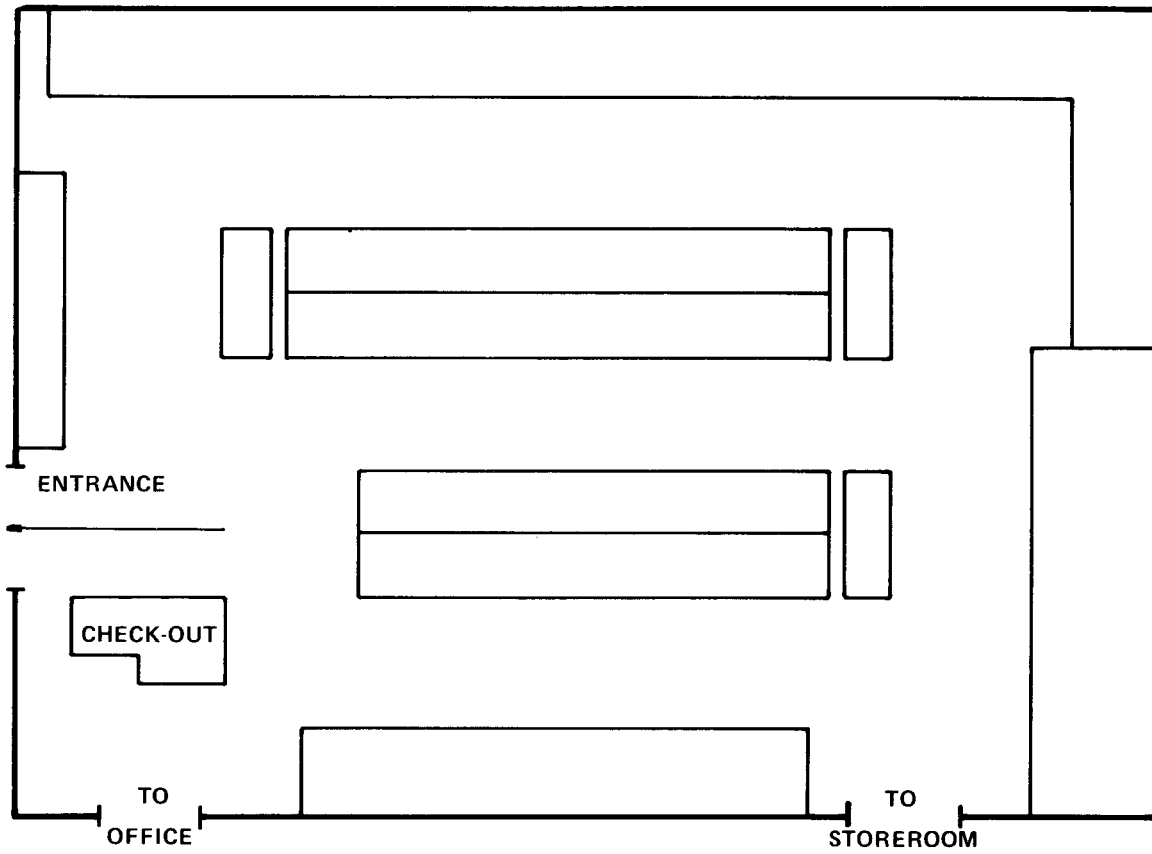
- 8 Fresh vegetables should be displayed at the end of the shopping tour so that the customer can place them on top of other goods in the shopping basket to avoid damage.
- 9 Damaged goods. A special display should be arranged so that they are noticed by the customers. But do not place it so that it is the first thing to attract the customers when entering. It wouldn't make the shop look attractive, would it?
- 10 Return of empty bottles. Customers would find it convenient to get rid of the empties as soon as possible, which means it should be arranged close to the entrance. Some shops find it necessary to receive the bottles close to the storeroom or at a counter where there is an assistant on duty.
- 5) Preferably, this session should be followed by study visits to some shops. Half a day would be needed for that purpose, including about one hour in the classroom for reports and discussions.

Instruct the trainees to prepare check-lists for important rules of display. Tell them which shops they are supposed to visit and request them to note for each:

- What makes the display more or less attractive?
- What could be done to make the display more practical for the customers and for the staff?
- Are there any goods displayed in such a way that they could easily be damaged or stolen? Suggest improvements!

To avoid disturbing sales, the trainees should be told to behave discreetly and remain in small groups.

It is advisable to inform the managers of your purpose in the shop and to ask for their permission. They might appreciate an invitation to the follow-up session.

Display in a Self-service Shop

Using the figures below, indicate on the plan where you would like to place the goods listed in order to make the display attractive, practical and safe.

- 1 Soft drinks
- 2 Hygiene articles
- 3 Cooking oil
- 4 Dairies
- 5 Sugar
- 6 Cigarettes
- 7 A special offer of bowls at a very good price
- 8 Fresh vegetables
- 9 Slightly damaged goods, sold at reduced price
- 10 Empty bottles, returned by customers

Be prepared to explain and defend your proposal.

SESSION 5.3

TRAINING STAFF IN THE HANDLING OF GOODS

Objective : To enable trainees to effectively instruct shop personnel in the handling of goods.

Time : 2 - 3 hours.

Material : Exercises No 1 - 9.

Preferably this session should take place in a shop where goods, equipment and tools are available.

Some exercises may be performed in a classroom. It might be difficult to bring everything needed, but trainees could be told to use whatever is available to indicate various goods, furniture, equipment and tools.

Preparations : The trainer must be familiar with the various tasks assigned to the trainees. The demonstration of refilling goods should be practised in advance to assure its running smoothly.

The various exercises are covered by the "MATCOM Learning Elements" for staff of consumer co-operatives, which are recommended as resource documents.

The exercises should be planned together with the manager of the shop where the session is taking place. To avoid disturbing the customers it is advisable to carry out the session during a time when the shop is closed.

Session Guide :

- 1) Tell the trainees that you are going to act as a shop manager who will instruct his new assistant on the common task of "refilling goods". Ask one of the trainees to play the role of the assistant. Ask the other trainees to observe the training method that you use.

Explain the situation. In front of you there is a shelf with some goods displayed. It needs refilling and you have brought some cartons of goods from the storeroom. You have also brought a dust-cloth, a knife to open the cartons (if needed) and equipment for price-marking.

Start the demonstration. Make sure you are standing so that all trainees can follow you.

Tell the assistant that you will show him how to refill goods. Ask him to watch carefully. Refill the content of the first carton. Work fast and accurately as outlined below, without commenting.

- Remove the old stock of the commodity from the shelf.
- Make sure there is enough space for the goods in the carton, plus the old stock.
- Clean the emptied space on the shelf.
- Open the carton. (If using the knife you must be careful not to damage the goods.)
- Price-mark the goods before unpacking (if in a self-service shop).
- Put the goods on the shelf. Use both hands so that you can take at least two pieces at a time. (Some cartons are made so that the bottom will remain as a tray when the top of the carton is removed. If this is the case, you should try to place the tray with all goods on the shelf in one move.)
- Clean the old stock and put it back in front of the new one.
- Check the price label that is fixed on the shelf. Make a new one if needed.

The assistant by now probably has the impression that refilling of goods is a rather easy task that does not take long. Tell him this is true, but there are some things to remember, which you now are going to explain. Repeat the demonstration, refilling another shelf, but this time comment after each step:

- You remove the old stock so that you can put the new pieces behind. The old stock should be sold first - first in, first out!

- You display the entire content of a carton to avoid having open packages in the storeroom and to keep as much as possible in the selling area.
- You clean the shelf before refilling, because this is a good opportunity when the shelf is already empty.
- It is easy to price-mark on top of the tins or packets while they are still in the open carton. Check the price list so that your prices are up-to-date.
- By using both hands you will work faster. Show the "faces" of the packets and do not put different kinds of products behind each other. Then it will be easy to see all commodities on the shelves.
- Clean the old tins before putting them back, because if they do not look as nice as the new ones behind, customers will not buy them.
- Fill up the front of the shelves and check the price labels so that the display looks attractive to the customers.

Now have the assistant show what he has learned. Let him refill the next commodity. Observe what he is doing, including any mistakes. Do not interrupt - let him finish before you comment.

Encourage him and praise good performance. Correct mistakes, if any. Demonstrate and explain again if necessary. Ask questions to be sure that he understands.

Ask him to continue with another commodity. Tell the trainees that as the manager you are going to supervise the work of the assistant until you are convinced that he is able to carry out the refilling accurately. Speed will come later.

- 2) Dismiss the assistant and ask the trainees to comment on your training method. They should appreciate that you (as manager) have spent quite a lot of time on training the new assistant, but that as a result, he will have learned to do things correctly right from the beginning and be able to work efficiently with a minimum of supervision.

Make a summary of the steps of the training method. Note them on the chalkboard and have the trainees copy them.

- 1 Show an overall picture of the job.
 - 2 Demonstrate and explain what you are doing and why .
 - 3 Allow the trainee to practise . Encourage and correct him.
 - 4 Have him continue practising until he can work smoothly .
- 3) Select those exercises which you find relevant. You may need to adapt them to fit the local situation. You can also add some other assignments.

Divide the trainees into small groups of three to five persons. Distribute one exercise to each group. Ask the trainees to go through the tasks, ascertain their requirements and practise so that anybody in the group is able to instruct. As far as applicable they should use the training method which has been demonstrated. Allow at least 30 minutes for preparations and practice.

When ready, amalgamate the groups two and two. Request a "manager" in each group to train an "assistant" from the other group. The remaining group members will watch the performance and afterwards comment and criticize.

If time allows, continue to mix the groups so that each group will perform an instruction with all other groups.

Exercise No 1: Weighing and Pre-packingAssignment

You are to train a new assistant to use the scale and to pre-pack a number of bags with a certain commodity (sugar, rice, flour or anything else that has been delivered to the shop in a gunny sack). Each small bag should carry the weight of exactly 1 kg (or 2 kg if that amount is more demanded).

Prepare yourself so that you can act as manager and instruct an assistant.

To think about

- You will need a proper working place with a sturdy table that can accommodate both the scale and some small bags. The table must be clean so that the bags do not get dirty.
- Place the gunny sack so that you reduce the risk of spilling when filling the small bags.
- The scale should be balanced before you start weighing so as to give correct weight.
- Write the contents and the price on the paper bags. That is easier to do while the bags are empty.
- It is easier to add up to full weight rather than to remove overweight. The best technique is to fill a bag to just below the actual weight (without using the scale), put it on the scale and slowly fill it to the exact amount.
- Close the bags properly. That is no problem if you use the right size bag.
- To keep pests away, clean up the working place when you are finished and re-close the gunny sack if it is not empty.

Exercise No 2: Maintaining the Display

Assignment

You are to train a new assistant to take care of the display of a certain commodity group, preferably fresh food like vegetables, bread or dairies which need much attention. (You may select the goods yourself.)

Prepare yourself so that you can act as manager and instruct an assistant.

To think about

- The display should look attractive, that is, filled with fresh goods.
- To make it look well filled, bring as many goods as possible from the storeroom, fill up the front of the shelves, put most goods at eye level and perhaps use "blind bottoms" to lift up goods.
- Clean goods whenever necessary. Remove or repair any leaking packages.
- Practise the rule "first in, first out".
- Remember that some fresh food require cool storage.
- To avoid further loss, immediately attend to goods which start deteriorating. What can be done to prevent further spoilage? Can such goods be sold out right away? Who is to authorize a price reduction?

Exercise No 3: Price-markingAssignment

You are to train a new assistant to price-mark the goods. This assignment applies to a self-service shop where almost every item must carry the price.

Prepare yourself so that you can act as manager and instruct an assistant.

To think about

- What price-marking equipment is available for marking different types of goods such as packets, paper bags, plastic bags, tins, bottles and so on?
- Mark prices so that they are easy to find and easy to read for both the customer and the cashier. Practise the "stamp-rule": whenever possible put the price to the right on top of the packet.
- What maintenance of price-marking tools is required to get a clear price?
- Where do you find the correct price to be marked?
- Are there any commodities which do not carry prices on each piece because they are very fast-moving or difficult to mark? How are the customers and the cashiers informed about the prices of these items?

Exercise No 4: Storage

Assignment

You are to train a new assistant to keep good order in the storeroom.

Prepare yourself so that you can act as manager and instruct the assistant.

To think about

- Keep newly arrived goods in a separate area until you have checked that quantities and qualities are correct.
- Only store goods which cannot be displayed in the selling area. Keep these, if possible, in sealed bulk packages.
- Do not place any goods directly on the floor. This avoids damage from dampness and pests and makes cleaning easier.
- Mark every package in the store so that it is easy to see what is in it.
- Mark all merchandise with the date of delivery so that the rule "first in, first out" can be applied. This avoids keeping goods too long.
- Store strong-smelling items apart from food.
- Store commodities belonging to the same group of goods together so that it is easy to find a certain item without searching the whole storeroom.

Exercise No 5: Arrange a Special DisplayAssignment

You are to train a new assistant to arrange a "special display" of a few selected items which you want the customers to notice. They are on "special offer" (goods either to be sold at very favourable prices, newly arrived or particularly in demand this time of the year). You may select some suitable items yourself.

Prepare yourself so that you can act as manager and instruct the assistant.

To think about

- Find a suitable place for the display where most customers will notice it.
- Make use of the available equipment to build the display, a small table, a basket, some wooden boxes, a corner of a gondola or a counter.
- Arrange the goods at eye level.
- Avoid displaying the goods where they may easily get knocked over by somebody passing. This is particularly important if there are breakable items.
- Prepare a poster that informs the customers about the goods.
- If you are selling a certain commodity at a very good price, you may want to display it together with some complementary goods which the customers might like to buy at the same time.
- Do not make the display so perfect that customers get the impression they are only allowed to look at it, not to buy.

Exercise No 6: Ordering

Assignment

You are to train a new assistant to prepare the orders for goods. The assistant will become responsible for ordering of a certain group of commodities.

Prepare yourself so that you can act as manager and instruct the assistant.

To think about

- Display goods on the shelves in a certain order so that it is easy to check what is left of each commodity.
- Before every ordering, check how much remains in stock. Fill up the display and check that goods have not been misplaced. Do not forget goods that might be kept in the storeroom.
- You also need to know how much merchandise will be needed, so you do not run out of stock before next delivery. What goods are the big sellers, which must be ordered in large quantities? What are the important items which must never be out of stock (even if not sold in big quantities)? What items are less in demand and should not be reordered?
- Which order form is used?
- What day is the ordering day?
- Are there any records with information on reordering levels and ordering quantities?

Exercise No 7: Daily CleaningAssignment

You are to train a new assistant to carry out the daily cleaning of the floor in the shop.

Prepare yourself so that you can act as manager and instruct the assistant.

To think about

- The assistant must appreciate the importance of daily cleaning and be honestly interested in doing it properly. How can you create such understanding and motivate him for this job?
- To make cleaning easy, do not display any goods directly on the floor. Start by removing goods and clearing the surface if necessary.
- Keep cleaning equipment in a set place in the shop and keep it well cleaned to avoid odor.
- During the dry season it is often sufficient to sweep the floor, but this must be done very gently otherwise the dust will settle on the goods.
- To "bind" the dust, a wet cloth can be wrapped around a scrub-brush like a swab, or a suitable agent spread on the floor before sweeping.
- Use cleaning agents (detergents) properly, i.e use a suitable type in the right quantities. Rinse properly; a slippery floor might otherwise result.

Exercise No 8: Deep-freezing

Assignment

You are to train an assistant to deep-freeze some fresh food.

Prepare yourself that you can act as manager and instruct the assistant.

To think about

- The goods to be frozen must be in good condition since the quality will not improve by freezing. (Instead the deterioration process will continue but very slowly.)
- Only a small quantity of goods should be frozen at the same time. Ordinary freezers in shops are in fact not intended for "freezing-in", only for storage. If many fresh items are put in the freezer, it will take long time to reach the required temperature. Meanwhile, the goods will begin deteriorating.
- All goods put in a freezer must be well sealed (for example, in thick, sealed plastic bags). This is to prevent the goods from drying out and losing quality ("freezer burn"). Unsealed goods might stick either to the freezer or to each other.
- Do not put fresh items on top of those already frozen; it thaws them and causes deterioration.
- Mark the content of all packages before putting them into the freezer, particularly if different goods are kept in the same freezer. It is more difficult to identify frozen goods and to write on the frozen packets.
- Mark the date so that it will be possible to check that the goods are not kept too long in the freezer. Goods containing much fat will deteriorate faster. Such goods should not be stored in the freezer longer than a couple of months.

Exercise No 9: Defrosting the FreezerAssignment

You are to train a new assistant to defrost the freezer so that the ice on the walls inside is removed.

Prepare yourself so that you can act as manager and instruct the assistant.

To think about

- The assistant must understand that the ice covers the cooling elements and thus prevents them from cooling the air in the freezer.
- The ice should not be scraped off since this might damage the freezer.
- It will be necessary to switch off the power so that the ice will melt.
- To speed up the process, containers with hot water could be placed in the freezer.
- To keep the food frozen in the meantime, keep it together, wrapped in a lot of paper or cloth and put it in a refrigerator, unless there is another freezer.
- When the ice has melted clean the freezer and thoroughly dry it before the power is turned on and the frozen goods returned.
- Some goods (like ice-cream) are very difficult to maintain frozen outside the freezer. It might be advisable to sell out such items before defrosting the freezer.

Note that this exercise requires more time - several hours if there is a lot of ice. Since the exercise cannot be repeated (unless there are several freezers needing defrosting), the instructor may wish to explain only, leaving the actual job for the trainee to carry out later.

topic

6

pricing

Session 6.1 Pricing Policy

Session 6.2 Margin

Session 6.3 Calculation of Selling Prices

SESSION 6.1PRICING POLICY

Objective: To enable trainees to identify the important factors determining selling price and to formulate a pricing policy for a co-operative retail shop.

Time: 1 - 1 1/2 hours.

Material: Case-study "Alphaville Co-operative Society".

Session Guide:

Items 1 - 3 below are supposed to illustrate the pricing mechanism in different market situations. If this elementary introduction is not needed, begin directly with the case-study (Item 4).

- 1) Show some item to the trainees (a book, a watch, sunglasses or something else fairly expensive). Announce that it is for sale. Someone will certainly ask the price. Ask the interested person what he would pay. Then state a selling price that is considerably higher than his offer.

Interrupt the demonstration and tell the trainees they have just seen an illustration of the basic fact that a seller normally wants a high price while a buyer wants a low one. There will be a business transaction only if one, or both, agrees to change his offer.

Ask the trainee who bid on the item what factors decide the upper limit of the price he is prepared to pay for it. Other trainees may suggest more factors. The following should be mentioned:

- how much money he can afford to spend;
- how much other sellers want for similar items;
- how strongly he wants the item; can he do without it or use an alternative?

Ask the group what factors determine the lower limit the seller is prepared to accept. The following should be mentioned:

- how much another customer is prepared to pay for the same item;
- how much the item has cost him;
- how strongly he needs some cash;
- how long he can keep the item before it loses value.

Take up your sale item again and continue. Cut down your price and invite the would-be buyer to continue the negotiations. The result may or may not be a sale. (Yes, if the instructor actually has an item for sale, this demonstration can be "real"; otherwise it has to be just role play.)

- 2) Ask for examples of situations where there is a lot of merchandise available, where sellers urgently need to sell but there are not enough buyers.

- One such example is a fish market where several vendors have a large supply of fresh fish left over at the end of the day.

Point out that this situation, called a buyers' market, could be very good for the buyers.

Now ask for similar examples of the opposite, i.e. a situation where many buyers want to buy merchandise in short supply. This, in turn, could be a good situation for the sellers. It is called a sellers' market.

- The occasion of a general shortage of food stuff in an area makes a good example - many buyers for food in short supply.
- If all sellers of a particular commodity agree to charge high prices, we can also talk about a sellers' market.

- 3) Ask the trainees to explain how consumers might suffer under conditions of a sellers' market.

- Excessive prices might be charged; customers would be exploited.
- Some customers might not be able to afford what they need.

Ask the group what could be done to avoid the disadvantages of a sellers' market. There are two major means of consumer protection.

- The government could intervene with price regulations, commodity rationing, government shops, and other controls.
- The consumers could organise themselves into co-operative societies and open their own shops.

- 4) Divide the trainees into groups. Distribute copies of the case-study. Allow the groups about 20 minutes to complete their assignment, the determining of a pricing policy for the new Alphaville Co-operative Society.

Reconvene your trainees. Request a spokesman from one group to explain why it believes policy A will succeed or fail. Write the arguments for both success and failure on the chalkboard. Then ask the other groups for further arguments and add these to the list.

Ask the next group to give its opinion on policy B and the third one on policy C. Invite relevant arguments from other trainees and note these on the chalkboard.

You may get a table like this.

Arguments for
Success

Arguments for
Failure

Policy A

- | | |
|---|--|
| <ul style="list-style-type: none"> - Customers will be attracted by the low prices, so sales will increase. - With the higher sales, the shop can be run efficiently at low cost. | <ul style="list-style-type: none"> - Prices may be too low: there may be no surplus for development, or the working capital may be lost. - The private shops might be able to afford a "price war" - reducing their prices below those of the co-operative until it has gone bankrupt. |
|---|--|

Policy B

- Even if prices are the same elsewhere, people will prefer buying at the co-operative because they will benefit from its profit.
- The profit the co-operative earns will be used to develop the shop.
- Without the competition of low co-operative prices, the private businessmen may not feel so threatened that they try to drive the co-operative out of business.
- If people can get goods at the same prices in other shops, they may not be interested in the new co-operative.

Policy C

- The shop will be able to sell goods at low prices and pay its costs.
- The co-operative may not earn enough money for development of the shop.
- The private shops may reduce their prices below the co-operative's to drive it out of business.

5) Ask the trainees to describe the market situation in Alphaville. They should note the points below.

- There is not much competition between the private shops, which probably have agreed to charge rather high prices.
- Goods are usually available - shortages are rare; thus the distribution functions well.
- The co-operative shop is just getting under way; thus it has probably fewer financial resources and less experienced staff than the already well-established private shops. But the expectations and morale of the co-operative members are probably high, and their shop may be the newest and the most attractive in town.

Ask the groups' spokesmen to present the pricing policy they recommend for the Alphaville Co-operative and their arguments for it.

In general a new society has rather limited resources. It is vulnerable and should therefore avoid hard price competition. However, if co-operative members are of the opinion that other shops

are charging unreasonable prices, they will certainly not expect their own to do the same.

In this case, therefore, a pricing policy along the lines suggested in the case-study as "Policy B" would probably be most suitable, perhaps with some ingredients from "Policy A", as a few obviously exorbitant prices need to be adjusted.

- 6) Tell the trainees that all the three policies discussed are successfully being practised by co-operative societies in various market situations.
- Policy A fits a well-established and efficiently run co-operative with financial resources equivalent to those of the competing shops.
 - Policy B fits a newly established society with fewer resources than the competitors. Prices are regulated by the government or kept at an acceptable level.
 - Policy C fits a co-operative shop which is the only or dominating retailer in an area. Note, however, that for the success and the development of the shop, it is necessary to earn a little net surplus also in this case.

Alphaville Co-operative Society

A co-operative shop will be established in Alphaville. In this little town there are already a few private shops. People can usually find what they want here. Prices do not vary much from shop to shop, so people do not bother much about comparing them. They simply go to the shop they find most convenient. Very few prices are controlled by the government. It is not known how much profit the businessmen earn on their shops, but they are certainly very well off.

Pricing policy for the new co-operative shop has been discussed. The three alternatives below have been suggested.

Policy A

Alphaville Co-operative should offer the lowest prices in town. If other shops try to compete by reducing their prices, in turn, the co-operative should at least maintain the same prices. People will appreciate the low prices - and the co-operative.

Policy B

Alphaville Co-operative should sell goods at about the same price as the other shops. It will earn a surplus like the others - but, in contrast to the private shops where only a few businessmen benefit by that profit, all the member/customers of the co-operative gain.

Policy C

Alphaville Co-operative should sell goods at cost price plus enough to cover the costs of running the shop. That means goods will be sold as cheaply as possible without losing money, regardless of prices in other shops.

Assignment

a) Discuss what would happen if each of the suggested policies were implemented.

- Would the co-operative be able to serve its members well?
- Would it be able to develop the shop?
- What would be the reaction of the other shops?

Write down your conclusions and arguments as to the success or failure of each policy. Use the table below.

Arguments for <u>success</u>	Arguments for <u>failure</u>
<u>Policy A</u>	
<u>Policy B</u>	
<u>Policy C</u>	

b) Decide on a pricing policy that you would recommend for the Alpha-ville Co-operative Society. You may select one of those already suggested or draft a new one.

SESSION 6.2MARGIN

Objective: To enable trainees to calculate the required margin.

Time: 1 1/2 - 2 hours.

Material: Exercise "Price Reduction".

Session Guide:

- 1) Ensure that all trainees understand the meaning of the term "margin". Cite a simple example - the cost price of an item is \$4.80 and the selling price is \$6.00. Ask trainees to calculate the margin as a percentage of the selling price.

$$\text{The margin} = \$6.00 - \$4.80 = \$1.20$$

$$\frac{\$1.20}{\$6.00} \times 100 = 20\%$$

If necessary, offer more examples. Be certain that all trainees can carry out such calculations. Emphasize that the margin is always expressed as a percentage of the sales.

- 2) Write on the chalkboard a list like the one below of common items sold in the trainees' shops.

- | | |
|---------------|--------------------|
| - Sugar | - Honey |
| - Rice | - Corned beef |
| - Cooking oil | - Drinking glasses |
| - Bread | - Bush knife |
| - Tomatoes | - Shirts |

Ask the trainees to state the cost price and the selling price of each item. If these are not known exactly, agree on the probable prices.

Ask each trainee to calculate the margins on the different items. Note their results on the chalkboard. In this way the trainees

will learn about their own margins, while practising to calculate them.

3) Ask the trainees to review the examples on the chalkboard. They will find that some goods are given a lower margin and others a higher. Ask them to give reasons for such deviation. They should bring up and discuss the following:

- Price regulation. The government or the manufacturer may have fixed the retail price of some commodities.
- Competition. A shop charging higher prices than its competitors is unlikely to be able to sell much.
- Handling costs. Some commodities are more costly to handle than others (for example, frozen food, which must be kept in a freezer). To "pay their own costs" they should have a higher margin.
- Leakage. Some merchandise is more susceptible than other to leakage (for example, fresh food or fragile items). This risk can be covered by a higher margin.
- Stock turn. Goods which are sold fast earn money fast, too. Hence, they can have a low margin. Slow-movers, on the other hand, lock up working capital for a long time and contribute nothing to the income until sold.
- Price reduction. For certain commodities, there is great risk that the whole stock cannot be sold at full price, but must be offered at reduced prices (fresh food, for example, which cannot be kept until the following day; clothes which go "out of fashion"). A higher margin is therefore used to compensate for the likely price reduction.
- Compensation. If forced by regulations or competition to sell some goods at low margin, it might be necessary to increase the margin on other goods, as compensation.

4) Remind trainees that the margin should be sufficient both to pay the costs of running the shop and to earn a small "net surplus". Hence, the shop management must know what percentage the margin should be, on average.

On the chalkboard, present these estimates for a particular shop.

Estimated annual sales	\$600,000	
Estimated total running costs	50,000	
		Required margin
Desired net surplus	10,000	

Obviously, there is need here for a margin of \$60,000. Ask the trainees to calculate that margin as a percentage of sales.

$$\frac{\$60,000}{\$600,000} \times 100 = 10\%$$

Now have the trainees assume sales of only \$500,000, with costs and net surplus remaining the same. Ask each to calculate the required margin in this situation. Request a trainee to put the correct answer on the chalkboard.

Sales	\$500,000	
Required margin	\$ 60,000	(50,000 + 10,000)

$$\frac{\$ 60,000}{\$500,000} \times 100 = 12\%$$

Have the trainees calculate in this way the required margin in their own shops. (Refer to their calculations in Session 2.2, but if they do not know the exact figures for the annual sales, the total running costs, and the desired net surplus, they should simply estimate them in order to practise the calculation.)

Compare the results. Note the most common percentage and the range between the lowest and highest figures. If someone gives an unrealistic percentage, check his arithmetic but do not spend time arguing about the estimated amounts.

- 5) Remind your trainees that, unfortunately, some goods will be spoiled or disappear without being paid for. Ask how such leakage will affect the trade margin. To ensure that all trainees realize that leakage reduces the margin, compare on the chalkboard the result from two shops. Both sell goods worth \$500,000 in a given year; one has no leakage at all (which of course is impossible in

practice); the other has a leakage of 1% of the sales (which is \$5,000 at selling price and \$4,400 at cost price).

	Shop A	Shop B
	<u>Without leakage</u>	<u>With 1% leakage</u>
Sales	\$ 500,000	\$ 500,000
Cost of goods sold	- 440,000	- 440,000
Cost of goods lost (leakage)		- 4,400
Gross surplus	<u>\$ 60,000</u>	<u>\$ 55,600</u>
Margin	12%	11.1%

Emphasize again that the actual margin will be less than that originally calculated, due to the leakage which is an additional cost for the shop. Ask the trainees to explain the consequences of this fact. What should they do, for instance, if they must have a margin of 12% and they know that they have some leakage in the shop? They must "aim higher" than 12% in this case.

Advise the trainees, as a rule of thumb, to increase the margin by the same percentage as the expected leakage. In the example just given, the leakage was 1% and the required margin was 12%. It is therefore necessary to use an average margin of 13%.

- 6) Compare the required average margin with the examples of individual margins stated on the chalkboard. The trainees will find that some are lower and some are higher than the average. Be sure that the trainees recognize that:
- the "average margin" depends on the margins on all the various items in the shop, and how much is sold of each item;
 - it would be too complicated to actually calculate exactly what the margin should be on various goods in order to achieve the average margin;
 - therefore, when determining the margin on new goods one has to decide in each case how much it is necessary and reasonable to deviate from the average.

Advise the trainees that while they need not calculate average margin for every order, they ought to check it regularly for all goods purchased during a certain period (e.g. a month). Ask what information they require to do that and where to find it. Correct answers depend on the account books used.

- The information needed: the total value of all goods purchased during the month, both at cost price and at selling price.
- Cost prices are found on the purchase vouchers, which should be entered in the journal (or purchase account). The monthly total of cost prices might be found in the ledger.
- The value at selling prices of the same goods should be calculated and noted on each purchase voucher. It should then be recorded in the stock control register.
- Some managers prefer to record the purchases both at cost and at selling prices in the same book, either in the stock control register or in a special purchase book.

Write this example on calculation of the average trade margin on the chalkboard.

Total value of goods purchased during May

.at selling price	\$ 45,000
at cost price	<u>40,500</u>
Total margin	\$ 4,500

Average margin in percent =

$$\frac{\$ 4,500}{\$45,000} \times 100 = 10\%$$

- 7) Open discussion on a given co-operative that requires a margin of 12%, but found it to be only 10% when checking last month.

Ask trainees what they think could be done to solve the problem. Possibilities include the following:

- Increase prices on some items.

This is the easiest way if competition and regulations permit - but large price increases must be avoided; some customers may stop buying.

- Reduce the cost of goods.

This would obviously also increase the margin, but it might be difficult to obtain the goods at lower prices.

- Reduce the costs of running the shop.

If some of these expenses could be avoided or reduced, a lower margin could be accepted.

- Increase sales without increasing running costs.

This might be difficult. The result would be a bigger margin in money terms, to pay for the running costs. The margin percentage, however, would remain the same.

- Change the assortment of goods.

If other methods fail, the only way to avoid a loss may be to stop selling some low-margin items and/or sell more high-margin goods. But this is a risky tactic for a co-operative. Its members may complain that the shop does not supply the goods they need.

- Reduce the leakage.

The required margin should include provision against the expected leakage. If the leakage can be kept lower than expected, the required margin will be consequently reduced. However, it might be difficult to know in advance if the efforts to reduce the leakage will prove successful.

Conclude by pointing out that the average margin in any shop is likely to vary slightly from one month to another. It might not be necessary to take drastic action if the margin drops a bit over one month only. But the margin should be checked regularly so that any downward trend can be observed and corrected.

- 8) Distribute the price reduction exercise or present the problems on the chalkboard. Ask each participant to carry out the exercise. The aim is to give them practice in calculation and to make them aware of the effects of price reductions.

After some 20 minutes, or when everyone is ready, ask a trainee who thinks he has the correct solution to the first problem to write it on the chalkboard. Make sure that all trainees understand. Con-

tinue in the same way with the other problems. The correct answers are:

- i) a) \$12
- b) \$18
- c) 9 bowls
- d) 14,3%
- ii) \$6,000 (gross surplus \$3,600).

Remind trainees that the ability to sell more at a reduced price may depend on the actions of the competitors. Sales may not increase if prices are reduced in other shops, too. Furthermore, the shop must be able to sell more goods without increasing its running costs. If, for example, more staff are needed, the gross surplus must be increased to cover the wages.

Price Reduction

- i) In a co-operative shop a certain type of glass bowl is sold at \$15 apiece. The margin is 20%. Only six bowls have been sold in the last month. The manager thinks he could sell more if the price were reduced to \$14.
- a) What is the cost price?
 - b) How much gross surplus was earned in the month?
 - c) What is the minimum number of bowls that must be sold at the lower price to earn the same gross surplus?
 - d) What is the new margin?

A co-operative society is selling goods for \$30,000 a month. The average margin is 12%. It has been suggested that prices should be reduced; the shop would attract more customers and increase its sales.

How much do they have to increase sales to earn the same gross surplus if the margin were reduced to 10%?

SESSION 6.3CALCULATION OF SELLING PRICES

Objective: To enable trainees to use common methods to calculate the selling price so that a predetermined margin is achieved.

Time : 1 - 1 1/2 hours.

Material : Exercises "Pricing" A and B.
Handy Margin Chart.

Session Guide :

- 1) Demonstrate the difference between the two terms mark-up and margin. Use as an example the cost price of a shirt at \$30. Ask the trainees to "mark up" the shirt 25% to get the selling price.

$$\text{The mark-up} = 0.25 \times \$30 = \$7.50$$

$$\text{The selling price} = \$30 + \$7.50 = \$37.50$$

Emphasize that the mark-up is calculated as a percentage of the cost price.

Ask the trainees what the margin is: in money terms it is \$7.50, the same as the mark-up. Ask what percent the margin is. Someone may suggest 25%, incorrectly. Remind the trainees that the margin should be expressed as a percentage of the selling price. Be sure that all do the calculation as below.

$$\text{The margin} = \frac{\$7.50}{\$37.50} \times 100 = 20\%$$

Conclusion: a mark-up of 25% of the cost price will give a margin of 20% of the selling price.

Ask the trainees to mark up the shirt 100% and to calculate the margin.

The mark-up will be \$30.

The selling price will be \$60.

$$\text{The margin} = \frac{\$30}{\$60} \times 100 = 50\%$$

If necessary, cite additional examples. It is important that every trainee grasp the fact that a certain margin percentage corresponds to a higher mark-up percentage; if a certain margin is wanted, the cost price must be marked up by a higher percentage. Note the conclusion for each example on the chalkboard.

Margin of selling price	corresponds to	Mark-up of cost price
10%		11%
13%		15%
20%		25%
30%		43%
50%		100%

Point out that the larger the margin percentage, the larger its difference compared to the mark-up percentage.

Remind trainees that in their own pricing work they normally know the cost price and what margin they want. What they do not know is the selling price of the goods.

Two common methods of calculating the selling price are presented below:

- a) using a mark-up multiplier, and
- b) using a formula for direct calculation.

(If only one method is generally used in the area, it may be sufficient to teach that alone. Otherwise, trainees might study both methods and adopt the one they prefer.)

2) Using a "mark-up multiplier"

Distribute Exercise A. Ask trainees by what percentage they should mark up the tea. They should understand by now that the mark-up should be above 10% (which is the margin). Point out that while it

is possible to calculate the percentage of mark-up, it is quite complicated. Explain that charts like the one on the chalkboard are available, where one can quickly see what mark-up percentage to use, once the margin is known.

Distribute the Handy Margin Chart. Demonstrate how to use it. Ask the trainees to find what mark-up percentage should be used to get a margin of 10%, 15% and 22%, respectively. Correct answers are 11%, 17.5%, and 28%.

Using the chalkboard, calculate the first selling price in the exercise.

Cost price	=	\$14	
Margin	=	10%	
Mark-up	=	11% (read from the chart!)	
Mark-up	=	0.11 x \$14	= \$1.54
Selling price	=	\$14 + \$1.54	= \$15.54

Show the trainees that instead of first calculating the amount to be added and then adding it to the cost price, both operations could be done at the same time, if the multiplier is used.

$$\text{Selling price} = 1.11 \times \$14 = \$15.54$$

Ask a trainee to do the next exercise on the chalkboard, using the multiplier. Check to see that all trainees understand how to use the Handy Margin Chart. Ask them each to do the remaining exercises.

When everyone is ready, have the correct answers read.

Dried milk	\$18.15
Cigarettes	6.90
Toothpaste	9.52
Hammer	16.47
Saucepan	22.50
Rice	4.86

In practice, a price like \$16.47 on the hammer would probably be rounded off to \$16.50. If anyone has already done this, it should be accepted as correct.

Check by hand-raising how many trainees have managed to do the exercises without mistakes, with just one mistake, and so on. Further practice in their spare time should be requested of those making several mistakes.

3) Using a formula

Write the following formula on the chalkboard:

$$\text{Selling price} - \text{Margin} = \text{Cost price.}$$

Remind trainees that the margin is stated as a percentage of the selling price. That means that the selling price is 100%.

The cost price could also be expressed as a percentage of selling price. Add figures to the formula on the chalkboard to show this example with a margin of 10%.

$$\begin{array}{rcccc} \text{Selling price} & - & \text{Margin} & = & \text{Cost price} \\ 100\% & & - & 10\% & = & 90\% \end{array}$$

Write the following problem on the chalkboard:

The cost price = \$6.30

The margin should be 10%.

What is the selling price?

We know that:

90% of the selling price is \$6.30 (that is the cost price).

$$1\% \text{ of the selling price} = \frac{\$6.30}{90}$$

$$\begin{array}{l} 100\% \text{ of the selling price} \\ \text{(that is the whole selling price)} \end{array} = \frac{\$6.30}{90} \times 100$$

Ask the trainees to make the calculation. The correct answer is \$7.00.

Now ask the trainees to describe the calculation in general terms. A correct description will give the formula below.

$$\frac{\text{Cost price}}{100 - \text{Margin}\%} \times 100 = \text{Selling price}$$

Write this formula on the chalkboard. Trainees should note that this method allows them to calculate the selling price without knowing the mark-up percentage.

Distribute Exercise B. Ask a trainee to calculate the first selling price on the chalkboard, using the formula. Check to be certain that all trainees understand how to use the formula.

Ask each participant to do the remaining exercises. Have someone read the correct answers.

Soft drink	\$ 1.82
Detergent	12.92
Tuna fish, tin	13.45
T-shirt	23.17
Marmalade	14.12
Tape recorder	200.00

Check your trainees' work. If necessary, add more exercises for practice.

Pricing - Exercise A

Use the Handy Margin Chart to calculate the selling prices.

	Cost Price \$	Margin %	Multiplier	Selling Price \$
Tea 500g	14.00	10	.....	.....
Dried milk	16.50	9	.....	.....
Cigarettes	6.00	13	.....	.....
Toothpaste	8.00	16	.....	.....
Hammer	13.50	18	.....	.....
Saucepan	18.00	20	.....	.....
Rice 1 kg	4.50	7	.....	.....

Pricing -Exercise B

Use the formula to calculate the selling prices.

$$\frac{\text{Cost price}}{100 - \text{Margin}\%} \times 100 = \text{Selling price}$$

	Cost Price	Margin	Selling Price
Soft drink	1.60	12	.....
Detergent	11.50	11	.....
Tuna fish, tin	11.70	13	.....
T-shirt	19.00	18	.....
Marmalade	12.00	15	.....
Tape recorder	160.00	20	.....

HANDY MARGIN CHART

MARGIN on SELLING PRICE required	Add to COST PRICE this MARK-UP	or multiply COST PRICE by	MARGIN on SELLING PRICE required	Add to COST PRICE this MARK-UP	or multiply COST PRICE by
1%	1.01%	1.01	26%	35.0%	1.35
2%	2.05%	1.02	27%	37.0%	1.37
3%	3.1%	1.03	28%	39.0%	1.39
4%	4.2%	1.04	29%	41.0%	1.41
5%	5.3%	1.05	30%	43.0%	1.43
6%	6.4%	1.06	31%	45.0%	1.45
7%	7.5%	1.08	32%	47.0%	1.47
8%	8.6%	1.09	33%	49.5%	1.495
9%	10.0%	1.1	34%	51.5%	1.515
10%	11.0%	1.11	35%	54.0%	1.54
11%	12.5%	1.125	36%	56.5%	1.565
12%	13.5%	1.135	37%	59.0%	1.59
13%	15.0%	1.15	38%	61.5%	1.615
14%	16.5%	1.165	39%	64.0%	1.64
15%	17.5%	1.175	40%	66.5%	1.665
16%	19.0%	1.19	41%	69.5%	1.695
17%	20.5%	1.205	42%	72.5%	1.725
18%	22.0%	1.22	43%	75.5%	1.755
19%	23.5%	1.235	44%	78.5%	1.785
20%	25.0%	1.25	45%	81.5%	1.815
21%	26.5%	1.265	46%	85.0%	1.85
22%	28.0%	1.28	47%	88.5%	1.885
23%	30.0%	1.3	48%	92.5%	1.925
24%	31.5%	1.315	49%	96.0%	1.96
25%	33.5%	1.335	50%	100.0%	2

topic

7

stock control

Session 7.1 Leakage

Session 7.2 Delivery Control

Session 7.3 Stock-taking

Session 7.4 Stock Records

SESSION 7.1LEAKAGE

Objective : To enable trainees to identify where leakage may occur, to explain its consequences and how it can be prevented.

Time : 1 1/2 - 2 hours.

Material : Case-study "The Best Manager".

Session Guide:

- 1) Tell the trainees that a co-operative bought a 50 kg bag of rice. The cost price was \$3.50 a kg and the selling price \$3.75. Ask trainees to calculate the expected gross surplus.

While they work, prepare the table below on the chalkboard. Do not immediately fill in the figures; ask a trainee for them and complete the table.

Sales	\$ 187.50
- <u>Cost of goods</u>	<u>175.00</u>
= Gross surplus	12.50

Explain to trainees that the sale of rice was particularly controlled in this co-operative; the shop assistants weighed out rice for the customers and they put the payment for rice in a separate cashbox. When all the rice had been sold, the money totalled \$180. Add this information to the table on the chalkboard. The table will reveal that the actual gross surplus was lower than expected.

	<u>Expected</u>	<u>Actual</u>
Sales	\$ 187.50	180.00
- <u>Cost of goods</u>	<u>175.00</u>	<u>175.00</u>
= Gross surplus	12.50	5.00

How much was missing? Two kg of rice had apparently disappeared without being paid for. This constitutes a leakage of two kg of rice, or \$7.50. Remind trainees about the definition of leakage: a loss of goods (or cash) for unknown reasons.

- 2) Without leakage the co-operative would earn \$12.50 on a bag of rice. Ask each trainee to calculate how many bags of rice must be sold to earn \$12.50 if two kg is lost from every bag.

The correct answer is 2 1/2 bags. Point out that it would be impossible to increase sales enough to compensate for such leakage.

- 3) Ask the trainees to calculate the leakage and the gross surplus if five kg were lost and the co-operative was paid for only 45 kg of rice. Correct answers:

Expected sales	\$ 187.50
Actual sales	<u>168.75</u>
Leakage	18.75
Sales	\$ 168.75
Cost of goods	<u>175.00</u>
Gross <u>loss</u>	- 6.25

Emphasize that trade margins are usually so small that even minor leakage could ruin a shop. In this case, the cash collected on the sale of a bag of rice is not enough to purchase a new bag - or to provide adequate surplus to pay other expenses.

- 4) Point out the obvious conclusion: leakage must be prevented or reduced. Emphasize that this is possible only if we know where and how leakage occurs.

Ask the trainees how the leakage of rice might occur. Have them discuss the matter in small groups for a few minutes. Then ask several trainees in turn to suggest ways. Note all reasons for leakage on the chalkboard. They should include:

- Wrong quantity received. (The bag contained not 50 but 48 kg.)
- Weighing mistakes. (Some customers received overweight.)

- Wrong price charged. (The salesman was misinformed about the price or miscalculated it so the customer was undercharged.)
- Wrong change given. (The customer received too much change.)
- Some goods spoiled by pests. (Rats ate or contaminated the rice.)
- Careless handling of goods. (Some rice dropped on the floor when weighing.)
- Some goods stolen. (Taken or given away by the staff, or pilfered by customers.)

Ask the trainees how leakage might occur with goods other than rice. Add these to the list. Examples:

- Careless storage. (This can result in damage due to breakage, moisture, or pests.)
 - Deterioration. (Perishable foodstuff turns bad and cannot be consumed.)
 - Weight loss. (Some foodstuff dries out or evaporates.)
 - Unaccounted-for consumption. (Soap or cleaning articles taken for use by the staff; drinks offered to official visitors.)
 - Container loss. (The system for paying deposits on empty bottles or the like is not strictly applied.)
- 5) Ask each trainee to select the five most common causes of leakage, according to his experience. Then put the question to a vote by the group as a whole.

Divide the trainees into five groups and distribute one reason for leakage to each. Give the groups some 15 minutes to discuss ways to avoid that leakage.

Reconvene the groups and request a representative of each group to report its recommendations. Invite comment but do not take time now to discuss the effectiveness of the various methods. The intent is to show the trainees that leakage has many causes and must therefore be prevented by many means.

Make sure that all trainees appreciate the conclusion: to prevent leakage the shop staff must be able to carry out all their tasks correctly.

- 6) Explain that leakage is usually expressed as a percentage of sales. For example, sales during a given month were \$50,000. During the same period, goods worth \$1,000 were lost. The leakage was determined as below.

$$\frac{\$ 1,000}{\$ 50,000} \times 100 = 2\%$$

Ask each trainee to calculate the leakage in percentage if sales were \$90,000 and leakage \$2,700. The correct answer is 3%.

The trainees may want to know how they can determine the amount of merchandise lost; this will be explained in Session 8.4.

Ask what the advantages are of expressing leakage as a percentage of sales. The percentage figure makes it possible

- to follow the pattern of the leakage level in a shop;
- to compare the leakage level in different shops;
- to determine if the level of leakage is acceptable or not.

- 7) Discuss what level of leakage could be accepted as normal. There may be official guidelines, but generally leakage below 0.5% is considered as low, above 1% as high, and above 2% as very high.

Trainees should recognize that the acceptable leakage level depends on such factors as the type of shop, what it deals in, and its locale. Ask them to compare two shops, as below, and decide which is likely to have more leakage and why.

<u>Comparison</u>	<u>Comment</u>
- A shop dealing in general groceries and a shop dealing only in fresh food.	The fresh food (perishable) is likely to cause more leakage than the general groceries (dry or canned food and household supplies) which can be kept longer before deteriorating.
- A counter-service shop and a self-service shop.	Self-service is likely to increase leakage because the customers (not just the staff) handle the merchandise.
- An old ramshackle shop and a new modern one.	High leakage could indicate that the building itself is no longer suitable for a shop.
- A village shop and a city shop.	In a city area with a high crime rate you would expect more leakage (shoplifting) than in a quiet village.
- A shop where records of damaged goods are kept and a shop without such records.	Efficient record-keeping minimizes leakage (which is, by definition, loss for unknown reasons).

- 8) Divide the trainees into groups of three to five persons. Distribute copies of the case-study "The Best Manager" and allow some 15 minutes for the assignment.

In the meantime, copy the table below on the chalkboard without filling in the percentage figures.

	<u>Estimates</u>		<u>Shop A</u>		<u>Shop B</u>		<u>Shop C</u>	
Sales	3,000		2,800		3,500		3,000	
Net surplus	120	4.0%	112	4.0%	70	2.0%	135	4.5%
Leakage	18	0.6%	14	0.5%	42	1.2%	24	0.8%

Reconvene the groups and ask them to fill in the percentage figures in the table (question a). Make sure that all trainees understand how the calculations were made; demonstrate this if necessary.

Ask a representative from each group to report its evaluation of managers (question b). Invite comment. The figures reveal the points below:

Manager A keeps good order in his shop. That results in low leakage. He may not be a good salesman but he keeps good control over running costs. He has managed to keep the net surplus at the estimated level in spite of low sales. But the co-operative has earned less money than expected.

Manager B seems to be a good salesman but not careful enough with merchandise and expenses. Thus, leakage is high and net surplus too low.

Manager C has reached the estimated sales level. Leakage is a bit high, but on the other hand he must have avoided some expenses since his net surplus is higher than expected.

Ask the groups to rank the three managers (question c). Accept different opinions since there is no one correct answer. C is better than A, but B is more difficult to rank. The members would probably say that he serves them best, but the small net surplus might be insufficient for development of the shop.

- 9) Sum up by emphasizing that the percentage of leakage level is one of several figures to consider when evaluating the performance of a shop manager. Leakage affects business results in any retail shop. Everyone working in a shop must appreciate this and learn to prevent leakage.

The Best Manager

The Progress Co-operative Society has three shops. They are of the same type and size. They are located in similar areas and their market conditions are about the same. Goods are supplied from the Co-operative Wholesale Society and the recommended selling prices are followed. Last year each shop was estimated to sell \$3,000,000 worth of merchandise and to earn a net surplus of 4% of the sales. Normal leakage, including damage and wastage, was estimated to be 0.6% of sales.

These are the actual results achieved in thousands of dollars.

	<u>Estimates</u>		<u>Shop A</u>	<u>Shop B</u>	<u>Shop C</u>
Sales	3,000		2,800	3,500	3,000
Net surplus	120 4%		112	70	135
Leakage	18 0.6%		14	42	24

Assignment

- a) Calculate the net surplus and the leakage in percentage of sales for each shop.
- b) Evaluate the success of the three managers in running their shops. What do the figures above tell us about their good and bad points?
- c) Rank the managers. Who is the best one from the members' point of view?

SESSION 7.2

DELIVERY CONTROL

Objective : To enable trainees to appreciate the importance of delivery control and to organise safe delivery control systems in their own shops.

Time : 1 1/2 - 2 hours.

Material : Mini-cases "Delivery control A - C".
Handout "Check-list for Delivery Control".

Session Guide :

1) Distribute copies of the mini-cases. Ask the trainees to read Case A and then to explain the consequences of the failure described. At least the following two aspects should be brought up:

- The shortage of corned beef.

Since it was unexpected, the manager may not be able to find a new supply or substitutes quickly. Customers wanting corned beef will not be satisfied. This may negatively affect sales.

- The co-operative has paid for something it apparently never received.

It will be awkward explaining the situation to the supplier; if he refuses to compensate, the co-operative will lose money.

Ask the trainees to suggest how to avoid such problems. Try to elicit the "rules" below.

- Upon the receipt of goods, check to make sure that you have received exactly what you ordered.
- Before payment, check to be certain that you have received what you pay for.

Note the following key words on the chalkboard:

RECEIVED = ORDERED

RECEIVED = PAID

Discuss how this checking can be carried out in practice under the following circumstances:

- a) goods are collected at the wholesale depot against cash payment;
- b) goods are brought to the shop by the supplier and paid later against an invoice.

Ask the trainees to share their experiences. Show samples of documents actually used.

- 2) Discuss further what actions should be taken in case of discrepancies. At least the following should be brought up:
 - What could be done to avoid out-of-stock problems when goods ordered are not received?
 - What should be done in order to get refunded when prepaid goods are not received?
 - What should be done when an invoice includes goods which were not received?
- 3) Ask the trainees to read Case B. A general discussion of the case could be introduced through a role play. Ask a trainee to act as the shop manager. (He has just arrived at the Union Depot to claim compensation for the missing sugar.) Perform, yourself, the role of the Union manager. You should pretend to be suspicious and question the correctness of the claim. Refer to the document on which the assistant manager has certified that the goods were received in good condition. Tell the manager that the method of checking was not good enough.

The role play will show the need to check the quantity when the goods are received by the co-operative. Later it will be difficult to prove when a loss has occurred - before or after receipt.

Discuss how quantity should be checked -

- a) in the case described (where the assistant manager should have demanded that the weight be checked before accepting the goods at the Depot);

- b) if the Co-operative Union had delivered the goods to the shop (where the weight should be checked before the delivery note is signed; this requires a weighing scale in the storeroom).

Discuss the need to count, measure or weigh all merchandise received. Ask the trainees to give examples from their own experience as to which goods are difficult to check regarding quantity.

- 4) Ask the trainees to read Case C. Then ask which persons could possibly have caused the breakage; the trainees will realize that quite a number of people have been handling the lamps on their way from the manufacturer to the customer. Any of them could have caused the damage.

From this case the trainees should learn that when damaged goods are discovered in the shop without establishing the cause, the co-operative society is likely to stand the loss.

By this point, the trainees should understand that it is necessary to check the condition of the goods before signing the delivery note confirming that all have been received in good state.

Does this mean that all merchandise must be unpacked before acceptance? Discuss. (Unpacking might delay the transporter and cause increased transport costs.)

Ask the trainees for examples of goods which always should be examined upon receipt (fragile items and visibly damaged packages, for instance).

- 5) Sum up the steps in delivery control. Write the headings below on a poster. Ask the participants to assist in finding the key words.

DELIVERY CONTROL

A. RECEIPT OF GOODS

1. Right goods?
(= those ordered)
2. Correct quantity?
3. Good condition?

B. PAYMENT OF GOODS

1. Goods received?
2. Prices as agreed?
3. Correct calculations?

Emphasize that the system will work only if the trainees are able to organise the receipt of goods in a practical and systematic way. They should now focus on such details.

Divide the class into groups of five to seven persons. Explain the assignment as follows to each group.

Write "Instructions" (a check-list) for the person responsible for delivery control, concerning -

- A preparations for the receipt of merchandise (where the goods should be received, checked and stored, what equipment is needed);
- B procedures for the checking of goods (which goods to check, when to do it, how to do it);
- C actions to be taken in case of discrepancies (missing or damaged goods, how to inform the supplier).

The instructions should apply to the situation where a written order has been sent to a supplier and the goods are delivered by the supplier's truck.

Allow the groups up to 40 minutes for their work. Reconvene the groups and ask one group to present its "Instruction A - Preparations". Discuss the proposal, asking the other groups for suggestions. Make sure that the items under the handout "Check-list for Delivery Control" are included.

Continue in the same way with "Instruction B - Checking procedures" and "Instruction C - Actions in case of problems". Make sure that the suggestions are similar to the check-list included here.

Then distribute that check-list to the trainees - or reproduce one based on their own suggestions.

Delivery ControlCase A

The manager of a co-operative is informed one day that the tins of corned beef are out of stock. He finds this very surprising as he is sure he ordered two cartons the previous week. It is most unlikely that they have been already sold.

He searches the storeroom - no corned beef. He begins to wonder if it was ever received. He checks the invoice from the wholesaler, which has just been paid. The corned beef is included, all right. Yet none of his staff remembers unpacking any corned beef. He checks the delivery note and finds the beef is not listed. It looks like the manager has paid for corned beef which has not been received.

Case B

A shop assistant has just brought a 50 kg bag of sugar from the storeroom. He becomes suspicious about the weight of the bag and tells the manager.

The manager agrees that the bag does not look full, although it does not seem to have been opened. He instructs the assistant to record everything sold from that bag so that its contents can be checked.

The assistant cuts open the bag. Each time he weighs out sugar to a customer, he notes the amount on a piece of paper. When the bag is empty, he adds up the total. 44 kg of sugar have been sold.

The sugar bag had been collected at the Depot of the Co-operative Union by the assistant shop manager.

Case C

When unpacking a box of kerosene lamps, a shop assistant found that most of the glass chimneys were broken. The box had been in the storeroom for about two weeks. It had been purchased from General Supplies, Ltd., and had been brought to the shop by Quick Transport, Ltd., together with some other goods. Two people had been hired to unload the truck. One of them had set the box on the floor of the storeroom.

All employees were questioned about the damage but they all denied any knowledge of it. One assistant admitted moving the box to a shelf in the storeroom but insisted that he had handled the box carefully.

Check-list for Delivery ControlA - PREPARATIONS

1. Prepare the receiving area.
 - This should be close to the storeroom entrance, clean, and free of other goods.
2. Prepare the equipment needed.
 - Make sure the necessary carts, trolleys, weighing machine, tools for opening boxes, and felt pens for marking boxes are on hand.
3. Prepare the staff.
 - One staff member should be ready to take care of the goods and the requisite checking when the transport arrives.

B - CHECKING PROCEDURES

1. Make sure that the consignment is for your shop.
 - Before unloading begins, check to see that the delivery note has your name on it.
2. Unload and place all merchandise in the receiving area.
 - As goods are being brought in, watch out for damaged packages; put any such items aside for closer examination.
 - Place fragile items where they will not be easily damaged.
 - Keep packages containing the same articles together.
 - Keep goods requiring weighing separate.
 - Put small packages where they are easy to find.
 - Separate fresh and frozen goods so they can be taken care of first.
 - Place urgently needed goods (perhaps because they have been out of stock) apart from the rest to be unpacked immediately.

3. Check to be certain that you have received exactly what is stated on the delivery note.
 - Right goods?
 - Right quantity?
 - Good condition?
 - Mark the packages as they are checked and tick off the corresponding line on the delivery note.
4. Sign the delivery note.
 - Keep a copy for later comparison with the invoice.
5. Return any empty containers.
 - Obtain (and properly file) a receipt for any cases or empty bottles returned to the supplier.

C - IN CASE OF DISCREPANCIES

1. Return goods.
 - Ask the delivery man to take back any goods not ordered and any not in good condition.
2. Correct the delivery note.
 - Record on the delivery note any goods returned. Correct any other errors.
3. Have the corrections endorsed.
 - Ask the delivery man to certify with his signature that the corrections and notes on the delivery note are correct. File a copy with his signature for later comparison with the invoice.

SESSION 7.3STOCK-TAKING

Objective: To enable trainees to organise fast and accurate stock-takings.

Time: 1 - 1 1/2 hours.

Material: Case-study "The Stock-taking".
Handouts "Check-list for Preparations for a Stock-taking" and "Instructions for Stock-taking Teams".

Session Guide:

- 1) Find out what the trainees know about stock-takings and how they organise them. Ask, for example:
 - Why are stock-takings carried out? How often?
 - How much time is usually spent on a stock-taking?
 - Is the shop kept closed? For how many hours?
 - Who is involved? What are their duties?
 - What details are recorded?

Conclude:

- a) The aim of the stock-taking is to find the actual value of the stock. Ask the trainees why that is needed. It is essential:
 - for calculating leakage;
 - for verifying the value of the stock on the balance sheet;
 - for calculating the cost of goods in a trading report.
(This could be estimated or calculated in another way, too.)

(Do not spend time explaining the various calculations now; refer to other sessions.)
- b) Consequently, the frequency of stock-takings depends on how often the actual stock value is required for any of the reasons mentioned above.

c) It is necessary to organise fast and accurate stock-takings. Obviously, the exact, true value of the stock must be established, without causing too much inconvenience to the customers.

(Legal regulations concerning stock-taking may exist; for example, what details must be recorded. Read the relevant paragraphs of the Accountancy Act. Note that these regulations only apply to the stock-taking used for the annual balance-sheet.)

2) Divide the trainees into groups of five to seven. Distribute copies of the case-study "The Stock-taking" and allow some 15 minutes for the assignment.

Reconvene the trainees. Ask the groups to report in turn. Each should cite a possible mistake and offer suggestions as to its prevention. Make brief notes on the chalkboard. The following mistakes and ways to avoid them should be mentioned:

Possible Mistakes

How to Avoid Them

Wrong price on detergent since the smaller packet is more expensive.

Stock-taking staff should be instructed to decide if prices are reasonable before recording them. Check the price list, if necessary.

Softy Soap marked with different prices. One of them must be wrong.

Check which price is correct. (Do not forget to change the incorrect price labels.)

Missing price on toothbrushes.

Do not guess - check!

Wrong quantity may be estimated for the toothpaste.

Count the tubes, or keep records of how many are sold from the full boxes before the stock-taking, or

weigh first one tube, then all of them and calculate the quantity.

Wrong quantity recorded of the washing-up liquid - probably an error due to mishearing.

The person doing the recording should be instructed to follow the counting and determine if the amount stated is reasonable.

He could also read out what he is writing so that his partner will know that he has got it right.

Possible MistakesHow to Avoid Them

Damaged items recorded at full price although they carry less value (the buckets).

An item which can no longer be sold no longer has any value and should not be included in the stock-taking. If it can be sold at a reduced price, that one should be recorded.

Some soap may not have been recorded. It was displayed in various places and the staff mixed up what was counted and what was not.

Display the entire stock of each article together, or

record goods strictly in order of display. For example, if soap is displayed in three places, it should be listed three times on the stock-taking lists, as well.

Since the staff tried to count all soap together and thus had to move from place to place while counting, it is possible that they also forgot to record other articles.

Same as above.

The trainees should realize that stocktaking must be carried out systematically and accurately to give true stock value.

- 3) Tell the trainees to re-examine the list of possible mistakes. Ask them whether the attempts to avoid recording mistakes would delay the stock-taking. Can this be avoided?

The trainees should understand that if there are many damaged items or goods not properly displayed or price marked, the stock-taking will be slow.

Emphasize that stock-taking must be done quickly. What can be done to foster this?

- Prepare in advance, so that the counting and recording essential to any stock-taking can proceed without interruptions.

Ask the trainees what preparations they recommend. Have them discuss the question briefly in small groups before answering.

They should come up with the following points:

- check the display and put right any goods which have been misplaced;

- arrange the goods so that they are easy to count;
 - make sure all goods are correctly priced and labelled. Correct any errors;
 - remove any damaged or out-dated items; write them off, return them to supplier or adjust prices as needed.
- 4) Remind the trainees that recording error is a common reason for mistakes during a stock-taking. The staff either:
- forget to record some items, or
 - record the same items twice.

Explain that the mistakes are often due to a lack of organisation. There are usually several persons taking part in a stock-taking; they are all very busy and working very fast. It is easy to mix up counted and uncounted goods. Hence, it is very important that everyone involved knows exactly what he is supposed to do.

Ask the trainees how the work can be systematically organised. Try to elicit the suggestions below.

- The stock-taking staff should work in teams of two; for instance, one shop assistant counting the goods and one committee member doing the recording.
- Each team should be told exactly what area it is responsible for. To make the division of the shop even more clear, each shelf, rack, drawer, cupboard, freezer, and special display might be numbered by labels taped onto each unit. Each team should be told the numbers for which they are responsible.
- Staff should always count systematically, starting on the top shelf, counting article by article from left to right, shelf by shelf from top to bottom.
- Staff might also prepare for stock-taking by recording article names and prices in advance. This leaves them only the quantities to record during the stock-taking. (Note that articles must be recorded in the order displayed.)

- 5) Divide the trainees into groups of five to seven members. Ask some of the groups to prepare a "check-list" for preparations to be done in advance of stock-taking and the others to write concise instructions for staff doing the stock-taking.

Allow about half an hour for the group work; then reconvene the class. Ask one group to present its check-list and the others with the same assignment to add other items they have included. Discuss, and agree on a realistic list. Have all trainees copy the list, or ask some to prepare and reproduce it as a handout for everyone.

Continue in the same way with the list of instructions for the stock-taking staff.

(It is best to let trainees prepare their own lists. However, if there is not enough time for the group work, the handout included here can be reproduced and distributed.)

The Stock-taking

Stock-taking is going on in a co-operative shop. Adele and Henry are working as a team. Adele is counting the items and Henry is writing a list. He notes for each item the number of pieces and the price per unit. They do not take time to calculate the value. This is to be done later by the manager. We shall follow their work for a short while.

Adele counts and tells Henry what to write:

"15 packets of detergents. Price is \$17.50. And 26 of the small size. It is \$22.75."

"Softy soap. Here are 22 pieces. Wait, there are some more; 29 altogether. Look, this is strange, the first are marked \$2.70 but the others are \$3.70. Write \$2.70, since most of them got that price."

"Then we have the toothbrushes; 12 in various colours. But I can't find any price. Do you remember how much we charge? Isn't it \$5 or something?"

"Here is a basket filled with tubes of toothpaste. I emptied two boxes containing 48 tubes each the other day. I believe there are about 70 left. Price is \$6.80."

"14 containers of washing-up liquid of \$8.50."

"Plastic buckets, eight pieces at \$35. Two are without the handles. I wonder who would like to buy them?"

"Here are five more bars of soaps. Stop! Don't write. I think I've already counted them."

We shall leave Adele and take a look at Henry's records. On the next page you can see what he has recorded.

STOCK-TAKING FORM			List Nr: 16
Article	Quantity	Unit Price	Total Value
<i>Detergent</i>	<i>15</i>	<i>17.50</i>	
<i>- " - small</i>	<i>26</i>	<i>22.75</i>	
<i>Sotty soap</i>	<i>29</i>	<i>2.70</i>	
<i>Tooth brush</i>	<i>12</i>	<i>5.00</i>	
<i>Tooth paste</i>	<i>70</i>	<i>6.80</i>	
<i>Washing-up liquid</i>	<i>40</i>	<i>8.50</i>	
<i>Plastic bucket</i>	<i>8</i>	<i>35.00</i>	

Assignment

Discuss whether or not the records indicate the true value of the stock. Identify possible mistakes and ways they could be avoided.

Check-list for Preparations for a Stock-taking

1. Decide on a suitable day and hour for the stock-taking.
If possible, avoid closing the shop for it.
2. Check to be sure that a sufficient supply of stock-taking forms is available.
3. Arrange for extra staff to help with the stock-taking (for instance, committee members).
4. Make sure that storerooms and selling areas are clean and goods properly arranged for easy counting.
5. As far as possible, keep only full, sealed cases in the storeroom; write the quantity and selling price per unit on the cases.
6. Check the displays in the selling area. Correct -
 - any goods wrongly placed;
 - any price labels missing;
 - any incorrect prices.
7. Deal with damaged goods and slow-moving items:
 - sell them out at reduced prices, if possible;
 - throw away obsolete, useless and unsaleable goods.
8. Return any empty crates, drums, bottles, etc., for credit.
9. Goods which may be time consuming to count, measure or weigh can be dealt with some days before the actual stock-taking. (For instance, a roll of cloth material can be measured and the length noted on a card attached to it. Should any of it be sold before the stock-taking day, the card is marked accordingly.)

Instructions for Stock-taking Teams

1. Work two and two, one as a "counter and caller" (a shop assistant) and one as a writer (a committee member).
2. Use the pre-numbered special stock-taking forms to record all the goods in the area allocated to your team.
3. Go through all the shelves from left to right, from top to bottom. Make sure all goods in other spaces in your area are counted and recorded (cupboards, drawers, special displays, etc.).
4. Record the number of units, the kind of merchandise and the selling price per unit. Do not calculate the total price.
5. Write clearly and legibly.
6. Hand in all the stock-taking forms to the manager, including those not used, when the work is completed.

SESSION 7.4STOCK RECORDS

Objective : To enable trainees to keep records of the stock value.

Time : 1 - 1 1/2 hours.

Material : Blank pages from a Stock Control Register (two for each trainee).

Exercise "Stock Control".

Session Guide :

1) Ask the trainees how they keep track of their stocks of expensive items, such as tools, cassette players and watches. Someone is likely to mention the use of "bin-cards". Ask him/her to demonstrate on the chalkboard how such bin-cards are kept. Use the following example:

- On 1 January, there are six cassette players in stock.
- On 3 January, four cassette players are sold.
- On 5 January, the shop manager purchases six more cassette players.
- On 12 January, he sells another three cassette players.

The "bin-card" produced on the chalkboard should now look like this:

CASSETTE PLAYER MODEL SONO - 12				
DATE		<u>IN</u>	<u>OUT</u>	<u>BALANCE</u>
1.1	Ingoing stock			6
3.1	Sold		4	2
5.1	Purchased	6		8
12.1	Sold		3	5

Tell the participants that after the last sale a check showed that there were actually only four tape recorders in stock. Ask them what this means.

- The discrepancy between the stock in the records and the actual stock indicates a leakage. One cassette player has disappeared without being paid for - that is, if the records are accurate.

- 2) Find out if any of the trainees have been practising this type of unit stock control (so called, because the system tells how many units/items are in stock). If so, ask them to comment upon its usefulness. What are its benefits and shortcomings? If no one has such experience, the trainees might still be able to find some advantages and disadvantages, as below.

Benefits:

- Detailed information about the sale of each article. This helps the manager to develop the assortment of goods according to customer demand and to order the right replacement quantities.
- Detailed information about which articles have disappeared without payment. This helps the manager to take action to prevent leakage.

Shortcomings:

- The method is very time consuming. More staff might be needed. There is a danger that customers might find service too slow and take their business to shops with less bureaucracy.
- The large quantity of goods handled in a shop means that the staff has to make hundreds of recordings every day. There would certainly be some errors which would reduce the usefulness of the information.
- It would be complicated to calculate the total value of the stock, since you have to go through all the cards, multiply the quantity by the price of the article, and then add up all the cards.

Discuss the possibility of using a unit stock control system in a co-operative shop in view of benefits and shortcomings. Trainees should appreciate that the method is too complicated to be gener-

ally used (unless computerized cash registers are used for the recordings). But it is suitable for control of a few selected articles which need special attention, particularly very expensive ones. Ask the trainees for examples of such articles.

- 3) Tell the trainees that an alternative stock control method is to record the total stock value instead of units; this method will now be demonstrated through a simple exercise.

Hand out blank pages from a Stock Control Register to all trainees. A similar page should be drawn up on the chalkboard or OHP.

Explain that you will now provide information about sales and purchases of goods in a particular shop and that they are to make the relevant entries in the Stock Control Register.

Ask the trainees what information they need first if they want to keep records of stock value. The answer is "the opening stock", i.e. the value of the stock when the recording begins. If this is not known, it is necessary to perform a stock-taking.

Item 1: A stock-taking on 1 January reveals that the stock of goods is worth \$55,500 at selling price.

(According to local practice, the stock value is either recorded at cost price or at selling price. Some societies even keep stock records which include both prices. In the following examples the stock value will only be recorded at selling price. Adjust the examples to fit the method applied in the trainees' co-operatives, if needed. Stress that value at cost price and value at selling price must never be mixed in the records!)

Ask the trainees to make the first entry about the opening stock. Then demonstrate the correct way on the chalkboard/OHP. Continue in the same manner for the items that follow.

Item 2: On 2 January, goods for \$4,300 are sold. Record the decrease in the stock value and calculate the new balance.

Item 3: On 3 January, sales amount to \$5,100 and on 4 January, to \$4,800.

Item 4: On 4 January, goods for \$12,000 are purchased. They are to be sold for \$13,300. (Make sure trainees record the selling price. Stress that cost prices and selling prices must never be mixed in the records.)

Item 5: On 5 January, cash sales are \$4,400 and there are also goods sold on credit for \$300. (Trainees should recognize that the stock value has decreased due to both cash sales and credit sales.)

Item 6: On 6 January, the price of sugar is up \$1 per kg. There are 400 kg kept in stock. (The stock increases in value although the quantity is not changed.)

Item 7: On the same day sales are \$5,100.

Item 8: On 7 January, there is a stock-taking which shows a stock value of \$44,900. Ask the trainees to calculate the leakage. (Normally, stock-takings are not carried out this often; this is just an example to shorten the exercise.)

The Stock Control Register should now look like this.

	<u>IN</u>	<u>OUT</u>	<u>BALANCE</u>
1.1 Opening stock			55,500
2.1 Sales		4,300	51,200
3.1 Sales		5,100	46,100
4.1 Sales		4,800	41,300
" Purchases	13,300		54,600
5.1 Sales		4,700	49,900
6.1 Price increase	400		50,300
" Sales		5,100	45,200

Ask a trainee to show how the leakage is found.

Recorded stock value	\$45,200
Actual stock value	- <u>44,900</u>
Leakage	\$ 300

Sales during the period total \$23,900. The leakage is 1.3% of the sales - a rather high leakage!

$$\frac{\$300}{\$24,000} \times 100 = 1.3\%$$

- 4) Show the trainees that a Stock Control Register could be even simpler. Since the sales are recorded daily in the Cash Book, it would not be necessary to enter the same figures in the Stock Control Register as well. It would be enough to enter the total sales over a period of time, if you have no special reason to know the balance daily. Repeat the previous exercise in this simplified way.

	<u>IN</u>	<u>OUT</u>	<u>BALANCE</u>
1.1 Opening stock			55,500
Sales 1.1 - 6.1		24,000	
Purchases	13,300		
Price increases	400		45,200
Leakage		300	
7.1 Closing stock (actual)			44,900

- 5) Ask the trainees to compare this value stock control system with the unit stock control system first presented. The participants should realize that the value stock control system:
- is less complicated to carry out;
 - can be used to check the total leakage but will not tell which articles have disappeared;
 - will show the stock value at any time, but not which items are stocked;
 - will give no information about which articles have been sold.

Thus it is mainly a method to check leakage.

- 6) Tell the trainees that a certain co-operative shop had no stock control and did not know its leakage. However, information about the stock and the transactions were compiled from other records. Ask the trainees now to prepare a Stock Control Register for the shop and to calculate the leakage.

Give a blank Stock Control Register sheet and the exercise "Stock Control" to all trainees. Allow them up to 20 minutes to complete the exercise individually.

Ask a trainee who has prepared a stock control sheet correctly to present it on the chalkboard/OHP. Go through the items and be sure that all trainees have made correct recordings. Discuss and explain as necessary; see the comments below.

	IN	<u>OUT</u>	<u>BALANCE</u>
	\$	\$	\$
Opening stock			35,000
Purchases	50,500		
Sales		45,000	
Return to supplier		1,300	
Price increases	70		
Goods used in shop		40	
Transferred to branch		1,400	
Empties purchased	50		
Price reductions		100	37,780
Leakage		225	
Closing stock (actual)			37,555

The leakage is 0.5% of the sales.

Comments:

Sales. Note that these records concern the value of the goods in stock and not the cash transactions. Thus, it does not matter whether or not we have received payment. Both the cash sales and the credit sales mean that goods have left the shop and should be recorded! It is all right if some trainees prefer to enter cash and credit sales separately.

Return to supplier. Note that all entries in the stock control register are at selling prices. When the same goods were purchased, \$1,300 was entered in the "IN"-column. (It is included in the total purchases, \$50,500). When returned to the supplier, the stock value should be reduced by the same amount.

Goods used in the shop. It is important that the goods consumed by the co-operative itself are accounted for, or else it will turn out as leakage.

Transferred to branch. It is necessary to keep separate stock records to identify the leakage in each branch. Usually a branch is allowed to take over the goods at cost price, but in the stock control register we keep records of the selling price. (Alternatively, the transfer could be recorded as a sale. If the item is sold at a cheaper price, the difference should be accounted for as a price reduction.)

Empties. In this exercise the empties are also considered as goods. Empties brought into the shop by the supplier or the customers are recorded in the "IN"-column, empties leaving the shop in the "OUT"-column.

Balance. Since all entries are summaries of similar transactions during the month, there is no point in calculating the balance for each entry.

Stock Control

Below is a summary of the transactions in a co-operative shop during a given month.

Complete a Stock Control Register for the month and calculate the leakage.

- 1) According to a stock-taking, the opening stock was worth \$35,000 at selling prices.
- 2) Goods purchased during the month have a total selling value of \$50,500.
- 3) Total cash sales are \$42,750 and credit sales \$2,250.
- 4) A supplier agreed to buy back a packet of cloth which was defective. It should have been sold for \$1,300 but only the cost price \$1,050 was paid back, of course.
- 5) The price of cigarettes was increased by \$0.50 a packet. There were 140 packets in stock on that occasion.
- 6) Cleaning materials for \$40 were taken from the stock to be used for cleaning the shop.
- 7) A branch shop of the same co-operative ran out of sugar. Four bags at \$350 each (selling price) were transferred from the main shop. (The shops keep separate records.)
- 8) A customer brought a lot of empty bottles which were purchased back by the shop for \$50.
- 9) To clear out some slow-moving items, the prices were cut. The total price reduction was \$100.
- 10) Stock-value at the end of month was \$37,555 according to a stock-taking.

topic

8

cash control

Session 8.1 Basic Rules for Cash Control

Session 8.2 Cash Handling

Session 8.3 Accounting for the Cash

SESSION 8.1

BASIC RULES FOR CASH CONTROL

Objective : To enable trainees to explain the need for and basic requirements of a cash control system.

Time 1 hour.

Material : Case-study "The Missing Money".

Session Guide :

- 1) Ask the trainees if any of them have ever experienced money disappearing from the shop. If so, ask them to describe their cases briefly and to tell what actions were taken to prevent the same thing from happening again. Ask the other trainees for comments or suggestions as to how the loss of cash might have been prevented.

Conclude that while it is easy to see the need for strict cash control when money is already missing, it is more difficult to motivate the staff to handle cash safely before any losses have occurred.

- 2) Divide the class into groups of five to seven each. Distribute the case-study "The Missing Money" and allow the groups 10 to 15 minutes for the assignment.

Reconvene the class and ask a spokesman for each group to give the answer to the first question. Discuss and explain as necessary, making sure that all trainees understand the conclusions given below. Continue in the same way with the other questions.

- a) The stock-taking revealed \$24,500 unaccounted for - but it is not clear if cash or goods or both had been stolen.
- b) The loss occurred in the month since the last stock-taking; according to the statement of the manager, probably toward the end. We do not know exactly when it happened, whether on certain days or throughout the month.

- c) As we do not really know if it is merchandise or money that has disappeared, or when, it is difficult to tell how the loss occurred. There are several possible explanations, but which one is true?
- d) The co-operative society will take the loss since it seems unlikely that we will find out who caused it. We cannot say who handled the money (or merchandise) when it was lost. The manager could be held responsible because he failed to organise an effective system of cash control.
- 3) Ask the trainees what they have learned from the case-study; how can such incidents be avoided? Try to elicit the points that follow. They should be noted on the chalkboard and by the trainees.

Make sure that you always -

- receive correct payment for all goods sold;
 - record all payments received (write it by hand or use a cash register); this establishes exactly how much cash there should be;
 - check the cash daily, so that any mistakes (shortages or overs) are discovered quickly;
 - keep the cash safely, where it can be watched, or under lock (if possible bank the cash daily);
 - accept your personal responsibilities; if more than one staff member receives payments, each should have his own individual cashbox.
- 4) Ask the trainees how the staff would benefit from a good cash control system. There are several advantages:
- less danger of cash shortages which could ruin the co-operative and cause an end to their employment;
 - less worry for the staff that money might be missing;
 - less danger of being accused or suspected wrongfully;
 - less temptation to steal money, since the loss would be discovered immediately.

Referring to these advantages, emphasize that a good cash control system is a useful tool for the staff, not against them.

The Missing Money

The Committee of the First Co-operative Society called the four employees of the shop in for questioning. The secretary explained the problem.

"There seems to be some money missing from the shop. Look here. At the stock-taking a month ago, the stock value at selling price was \$108,500. Since then we have purchased goods worth \$62,300 at selling prices. At the stock-taking yesterday, we got a stock value of \$95,200. This means that you should have sold goods for \$75,600. But you have accounted for sale of only \$51,100 during this period. How do you explain that?"

	<u>Selling value</u>
Stock at the beginning of the month	108,500
Goods purchased during the month	+ <u>62,300</u>
Total	170,800
Stock at the end of the month	- <u>95,200</u>
Expected sales during the month	75,600
(Cash received \$51,100)	

The three attendants and the shop manager looked at the figures and felt rather uncomfortable. They assured the secretary that they had accounted for all sales. Each claimed to be not responsible for the loss.

"We put all money in the cash drawer as instructed," said one attendant. "The manager collects it and brings it to the bank every second or third day. Maybe he lost some?"

"No, every cent I collected was banked," objected the manager. "But I suspected that some money might be missing, because in the last few weeks there was less than usual."

"Anybody might have stolen the money," the second attendant exclaimed. "There is no lock on the drawer and we cannot watch it all the time."

"How do you know that cash is missing?" asked the third attendant. "I think it might well be goods that have been lost."

Assignment

Assume you are investigating the loss. Answer as far as possible the following questions:

- a) How much money had been lost?
- b) When did the loss occur?
- c) How did it happen?
- d) Who should be responsible for the loss?

SESSION 8.2HANDLING THE CASH

Objective: To enable trainees to handle cash correctly, to apply safe payment procedures in the shop, and to instruct other staff to do the same.

Time: 1 - 1 1/2 hours.

Material: Role plays "Charging the Customer" and "Receiving Payment".
Some ten commodities for the role plays.
An adding machine (or pen and paper).
Coins and notes.
A cashbox.

Session Guide:

- 1) Arrange a table as a shop counter in front of the room. Put the adding machine on it and the commodities and cashbox on another table behind it.
- 2) Refer to the previous session and remind trainees about the primary requirement for safe cash control: correct payment for all merchandise sold. Now introduce the trainees to some methods of avoiding mistakes when receiving payment from a customer.
- 3) Perform the role play "Charging the Customer". (To ensure a good demonstration, this should be performed by the instructor and one assistant.)

When the customer has received all the items and paid for them, stop the play and ask your audience why the salesman did not receive correct payment for the goods. At least the following two reasons should be mentioned:

- because he did not know the correct price (the price label was not clear);
- because he did not record every amount (the talkative customer made him forget an item).

- 4) Ask the trainees how such mistakes can be avoided. Note their suggestions on the chalkboard. They may include:
- establish a systematic and safe work procedure for the salesman;
 - use clear price labels;
 - have a price list of nonlabelled common items available at the counter;
 - inform staff about price changes immediately, so that they do not continue to charge the old price;
 - do not guess a price but find it out, if a price tag is unreadable or missing;
 - check the price if the price label seems to be wrong;
 - check that the staff have good eyesight.
- 5) Stress that a salesman (or cashier) must work very methodically to be sure of recording every item a customer is buying. He must train himself to follow the same pattern when registering prices, even if there are disturbances. He should never mix recorded and unrecorded goods on the counter.

Give some examples through demonstrations.

- a) A salesman brings goods from the shelves to the counter. He records the price of each item before bringing the next one. When an item is recorded he pushes it towards the customer so that the area on the salesman's side of the counter is free for the next item.
- b) A salesman first brings all the items the customer wants to the counter. He puts them together on the left side of the cash register. Then he begins to add up the total; once an item is recorded, he moves it to the other side of the cash register.
- c) A check-out cashier in a self-service shop uses the front of the counter as a receiving area where the customer puts his goods. After registering an item, the cashier pushes it to the rear of the counter, the delivery area.
- 6) Conclude this part of the session by asking two trainees to perform the role play "Charging the Customer" again. They do not need any special instructions. Just give the shopping list with the 10

items to the customer and ask the salesman to act correctly, in accordance with some of the examples just demonstrated. After the play, ask the other trainees for criticism.

- 7) Perform the role play "Receiving Payment". (Again it is recommended that the play be first performed by the instructor and one assistant.) It shows two ways of losing money in connection with payment. After the play, ask trainees to identify those two ways:
- the salesman did not remember the denomination of the note he received;
 - the salesman miscalculated the change.
- 8) Ask trainees how a salesman (or cashier) might avoid discussion about the amount he receives. The following method should be demonstrated and recommended:
- The salesman should acknowledge the amount received ("One hundred, thank you,") or, if he receives several notes, should count them aloud in front of the customer.
 - The salesman should not put the received note together with others in the cashbox or drawer until the customer has checked his change. Cash registers are usually equipped with a note holder for that purpose. If a cashbox is used, the note could first be placed under a corner of the box.
- 9) Demonstrate a safe method to give change.
- Acknowledge the received amount and keep it outside the cashbox, as described above.
 - Take the change needed from the cashbox while counting to yourself from the amount charged up to the amount received (for instance: \$32.25 - 32.50 - 33 - 34 - 35 - 40 and 50).
 - Put the change coins and/or notes, one by one, on the counter in front of the customer and count again out loud, "\$32.25 - 32.50 - 33 - 34 - 35 - 40 and 50. Thank you, Madam."
 - Finally, take the note received from the customer and put it in the cashbox.

Stress that it is necessary to keep good order in the cashbox. Coins and notes should be kept in separate compartments according to their denominations.

- 10) Ask two trainees to perform a role play on "Receiving Payment and Giving Change" according to the recommended methods. Comment and correct as necessary. Repeat the play with other actors, if necessary.

Role play - Charging the CustomerBrief for the salesman

You are to attend to a customer who wants to buy some 10 items. Put the items he demands on the counter. At first you record the price of each item as you bring it. Use an adding machine or just a pen and a piece of paper. The customer is very talkative and wants to discuss the goods. He even makes you confused about some prices which are not marked on the items. You try your best to answer politely. While talking, you sometimes forget to record the items and you get the goods mixed up on the counter.

Take a close look at the price label on one of the items. You cannot read it clearly but think it is \$27, which you tell the customer. He wants to check and reads \$22, which amount you agree to charge.

At the end you try to remember which items you have already registered, but you fail to charge for at least one of the items.

-----Cut

Brief for the customer

Prepare a shopping list of some 10 items which you will buy.

You are supposed to be a very talkative customer. In the shop, enquire about prices, qualities and use of goods. Take a close look at some of the items and put them in disorder on the counter. Your talk disturbs the salesman so that he forgets to charge you for one of the items. Pretend not to notice his mistake.

When the salesman tells you that an item is \$27, you object and point to the price label, which is not clear. In your opinion it reads \$22.

Role play - Receiving PaymentBrief for the salesman

You are just about to finish your sales to a customer. You are adding up the total and you tell the customer he is to pay \$43.15. He gives you a note which you quickly put in the cashbox.

You have some difficulty picking up the change from the cashbox. You do not keep the box in good order, so it is difficult to find some of the smaller coins.

Give some coins to the customer, who is to complain that the amount is not correct. He puts the coins you gave him on the counter, and you count to 7.85. You have given him a dollar too much, which you take back.

The customer is not satisfied but claims he has given you a note of \$100. You get confused. You look in the cashbox where you find several notes but you cannot identify the one you have just received. After some discussion, you agree to give the customer \$50.

-----Cut

Brief for the customer

You have just finished your shopping and the salesman will tell you how much you are to pay. You hand over a note which the salesman immediately puts in the cashbox.

The salesman takes a little time to find change and then hands you some coins. You check the amount and object that it is not correct. You put the coins on the counter and the salesman checks. He says that he has given you one dollar too much, but you tell him that you gave him a hundred-dollar note while he gave change on \$50. He is reluctant, but you insist that you are right. He cannot find the note you gave him and finally agrees to give you another \$50.

SESSION 8.3

ACCOUNTING FOR THE CASH

Objective : To enable trainees to organise a cash accounting system and to carry out routine cash control in a retail shop.

Time : 1 hour.

Material : Handout "Recording of Sales".
Samples of lists and receipts used locally for recording of sales.
Exercise "The Daily Cash Sales Report".

Session Guide :

- 1) Ask the trainees to recall the second requirement of a safe cash control system, mentioned in session 8.1:
 - record all payment received , to establish how much cash there actually should be to account for.

Ask trainees to give examples from their own experience as to how cash sales could be recorded:

- using a cash register ;
- issuing receipts with copies ;
- writing the amounts on a cash sales list .

Emphasize again that the purpose of these records is:

- a) to establish the precise amount of money received and
- b) to give the customer a receipt, at the same time.

Distribute the handout "Recording of Sales" or, preferably, samples of actual lists and receipts, both handwritten and cash register prints, used locally. Go through the handout or samples briefly. Make sure that the trainees comprehend the procedure for each method:

- Cash register

The most practical and the safest method is to use a cash register. The salesman enters all cash sales in the register. They are recorded on a list inside the machine. The total is added up automatically and can be read by the manager (who uses a special key). The customer also receives a cash sales "ticket" as a receipt, printed out by the register.

(Note: Detailed training in the proper use of a cash register may be needed by participants. If so, it is suitable to include a session now. It is recommended that the trainees study thoroughly the "User's Manual", issued by the manufacturer of the register, and be given opportunity to practise all operations.)

- Cash receipts

Handwritten receipts can be issued when a cash register is not available (or used temporarily when it is out of order). The original receipt is given to the customer, the carbon copy kept in the shop. Receipts should be numbered so that the manager can be sure he has all receipt copies when adding up the total.

- Cash sales list

A co-operative which cannot afford to issue sales receipts should at least record all sales on a simple list. In this case, the customers do not receive a receipt, unless they specifically request one.

It is possible that some trainees will tell about shops where individual sales are not recorded. The cash is simply counted at the end of the day and the total entered in the cash book. If this method is mentioned, ask why it is not safe.

- It only tells how much cash there actually is, not what there should be; it will not be possible to determine if any money is missing.

Ask trainees if it is necessary to record a sale:

- if the customer does not bother about a receipt?

- if it is just a minor amount?
- if the customer is not a member of the co-operative?

The answers are yes. It is important to record every sale. The records indicate how much the salesman or cashier is liable to account for. Point out that a cash sales list could be used as a complement to the cash receipts - either a receipt is issued, or the sale is recorded on the list.

- 2) Ensure through questioning that the trainees fully understand the importance of checking the cash daily.

Distribute copies of the exercise "The Daily Cash Sales Report" and ask trainees to do it individually.

While they are working, draw a form for a Daily Cash Sales Report on the chalkboard. Do not yet enter any figures.

Date	
<u>DAILY CASH SALES REPORT</u>	
RECORDED SALES	\$.
ERRORS	- <u>.....</u>
SALES	\$.
CASH RECEIVED	- <u>.....</u>
DIFFERENCE	\$.
The above amount received:	
.....	
Manager	

After a few minutes, ask a trainee for the answer to Question a): there is a shortage of \$100. Ask another participant to show the calculation by filling in the form on the chalkboard. Note that the total recorded sales on the cash register also include any cancelled tickets. Thus, to get the actual sales, the errors must be deducted.

Ask a trainee to adjust the report to get the answer on Question b): there is no longer any difference.

Discuss whether it is advisable to take money from the shop to pay a supplier. Trainees should realize that such a practice would complicate cash control. In case of a cash shortage, one would not know if the money had disappeared in the shop, or if too much money had been paid to the supplier.

Advise the trainees to keep the cash for sales of goods separate from other cash transactions.

Compare the report drawn on the chalkboard with those actually used in trainees' shops. Discuss any differences and shortcomings.

- If a shop does not use a cash register, the line for errors is not needed.
- If there are other cash transactions than the cash sales, vouchers for them must be kept and accounted for.

Show how a form of this type can serve as a voucher for the entries in the cash book. When the manager "reads" and resets the cash register at the end of the day, the register prints out a ticket containing the information needed to verify the sales; that ticket should be attached to the Daily Cash Sales Report. A copy of the report can also be used as a receipt for the cashier when she is handing over the cash to the manager.

Show an example of an alternative Daily Cash Sales Report on the chalkboard, like the one on the next page.

	Date
<u>DAILY CASH SALES REPORT</u>	
CASH IN HAND
PAYMENT VOUCHERS (cash paid out)	+
RECEIPTS (cash received for other reasons than cash sales)	-
"CASH BANK" (kept in shop for giving change)	<u>-</u>
CASH FROM SALES	=
RECORDED SALES	<u>-</u>
DIFFERENCE

- 3) Divide the trainees into groups of five to seven. Give one of the following assignments to each group. (If there are more than three groups, some can be given the same assignment). Allow about 15 minutes for group discussion.

The assignments

- a) List possible reasons for a cash shortage.
 - b) List possible reasons for a cash over.
 - c) What actions should be taken when a cashier has had frequent cash differences? What should be done with a cash over?
- 4) Reconvene the groups. Ask representatives of the cash shortage groups to present responses. Invite other trainees to comment. Note all suggested reasons on the chalkboard to get a comprehensive list. Separate "reporting and accounting mistakes" from the "real shortages" (when cash has been lost). Discuss briefly how to discover and prevent the various mistakes. A typical such list (with comments) follows:

Reporting and accounting mistakes

- Wrong figures or calculations in the report.
(Easy to check.)

- Miscounted cash.
(Count again.)
- Some cash left in the cashbox or drawer.
(Look for missing notes behind the drawer.)
- Cancelled sales included.
(Keep cancelled tickets as verification.)
- Some cash used for payments without proper record.
(This should be done only against receipts. It is better to pay with cheques and to have a separate cashbox for petty expenses.)
- Some cash removed during the day.
(It could be advisable to move some notes to the safe, but do not forget to record the amount.)
- A customer bought on credit.
(This must be recorded, if allowed.)
- A too-large amount registered by mistake.
(For example, dollars instead of cents; look for unrealistic amounts in the cash register journal.)
- Accounting periods mismatch.
(The recorded total in the cash register could include more than one day, if the register was not reset.)

Real cash shortages (cash has actually been lost)

- Customers paid too little.
- Customers received too much change.
- Somebody has stolen money.

- 5) Ask the cash over groups to present their result in the same way.
Their list may include:

Reporting and accounting mistakes

- Wrong figures or calculations in the report.
- Miscounted cash.
- Some cash paid in for other reasons than payment for goods.
(For example, shares. Such money should be kept separate from the sales cash.)

- The cash includes a "cash bank" or "cash float" for giving change.
(This money should be put aside before the cashier counts the day's cash.)
- Accounting periods mismatch.
(Money for sales before the previous resetting or after the present one have been included.)
- Copies of receipts missing.
(Check the numbers.)
- Cashier failure to record all the sales.
(This is serious, since it makes it impossible to check if any cash is missing.)

Real cash overs (there is actually too much cash)

- Customers have paid too much.
 - Customers have received too little change.
- 6) Conclude that although the lists of reasons for shortages and overs are long, most of the mistakes can be avoided if the staff handle and record cash methodically.

Knowing what may cause cash differences will help to avoid them. It will also help to find the mistake, so it can be corrected.

- 7) Proceed to Question c): What action should be taken when there have been frequent cash differences? Ask each group to present its recommendations and allow the other trainees to complement and comment. Ensure that the following points are brought up:
- Make sure that there are clear rules for cash handling and recording, that the staff know them, and that they actually work according to those rules.
 - An employee who violates such rules and thus causes cash shortages might be requested to repay the loss.
 - An employee responsible for many cash differences may need more training. If training does not help, he may not be suitable to handle cash.

- If it is impossible to find out who causes cash differences, all employees handling cash should be given separate cashboxes and keep separate records.
 - Cash overs should be taken as seriously as shortages. They are also indications that the cash is not being handled properly or that the cash control system is inadequate.
 - If the reason for a cash over cannot be found, it should be assumed to be payment for goods.
- 8) Finish the session by asking the trainees to recall and state the five requirements of a safe cash control system, mentioned in Session 8.1.

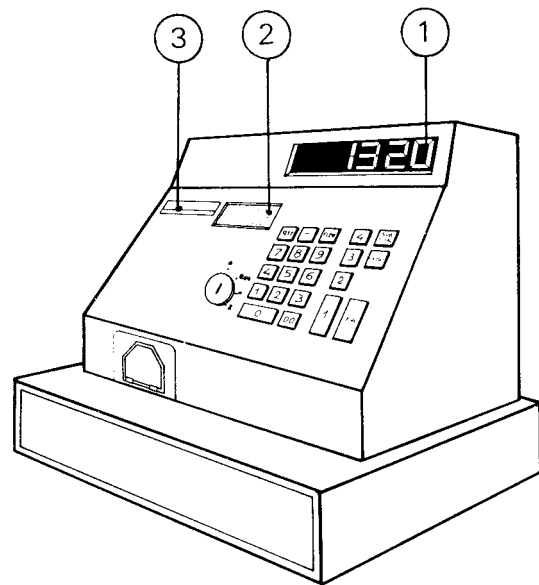
Recording of Sales

Three methods:

1. Using a Cash Register

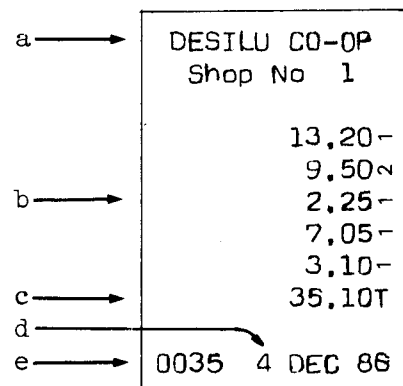
1 The registered amount appears on the display. That way the customer and the cashier can check what has been registered.

2 The amount is printed on the sales journal. It is a paper roll which is locked into the register. It can be taken out by the manager or an auditor who wants to check the records. You can see what is printed through a small window.



3 The amounts are printed on a ticket. The ticket is cut off and given to the customer when his purchases have been registered.

The ticket has the name of the shop (a), the price of each article (b), the purchase total (c), the date (d) and ticket number (e) printed on it.



2. Using Handwritten Cash Receipts

The receipt has the name of the shop (a), a receipt number (b), the date (c), the price of each item (d) and the total (e).

The original of the receipt is given to the customer; the carbon copy of each receipt is kept in the shop as a basis for the sales report.

a →	DESILU CO-OP	N 000005	
b →	Shop No 1		
<u>CASH SALE</u>			
c →	Date.....	<i>17/12</i>	19. <i>86</i>
	Particulars	T\$	c
		3	50
d →		2	25
		7	10
		<hr/>	
e →		<u>12</u>	<u>85</u>

3. Using a Cash Sales List

The total of each sale is recorded in a list.

Zaruti Co-operative Society			Date..... <i>18/12</i> 19. <i>86</i> ..		
DAILY CASH SALES LIST			No.. <i>1</i>		
T\$	c	Customer	T\$	c	Customer
<i>4</i>	<i>40</i>	<i>H. Brown</i>			
<i>12</i>	<i>-</i>	<i>S. Kabuga</i>			
<i>6</i>	<i>20</i>	<i>P. Pokes</i>			
<i>15</i>	<i>50</i>	<i>S. Simba</i>			
<i>8</i>	<i>60</i>	<i>V. Reed</i>			

The Daily Cash Sales Report.

A self-service shop has just closed for the day. The check-out cashier counts the cash. It is \$3,295. She notes the amount and hands over the cash to the manager.

The manager also counts the money; the amount is correct. He puts the cash in a safe and issues a receipt to the cashier.

Then the manager goes to the cash register to reset it. He reads the total recorded amount since the previous resetting yesterday. It is \$3,430.

During the day the cashier made occasional errors when recording sales. She called the manager so that he could see what was wrong. He cancelled the tickets and kept them for the records. One ticket of \$20 and another of \$15 had been cancelled.

Assignment

- a) Assist the manager in checking the recorded sales to see if they agree with the cash. Fill in the Report overleaf. State any difference, shortage or over.
- b) Looking for an explanation to the difference, the manager remembers that he had to settle a bill in the morning and asked the cashier to give him \$100 from the cash. Correct the calculation. What is the new difference?

Desilu Co-op Soc. Ltd.

Date

DAILY CASH SALES REPORT

RECORDED SALES T\$

ERRORS -

SALES T\$

CASH RECEIVED -

DIFFERENCE T\$

The above amount received:

.....
Manager

results, reports, responsibilities

Session 9.1 How to Evaluate a Consumer Co-operative

Session 9.2 How to Monitor Business Performance

Session 9.3 Budgets and Trading Reports

Session 9.4 Division of Duties and Responsibilities

SESSION 9.1

HOW TO EVALUATE A CONSUMER CO-OPERATIVE

Objective: To enable trainees to assess the performance and the development of a consumer co-operative.

Time: 2 - 3 hours.

Material: Two or three subsequent annual reports from a consumer co-operative. (One report would do if it includes figures from the previous year, for comparison.)

Annual reports of the same year from some three different consumer co-operatives which have made net surpluses. (It is preferable that the reports have similar layout.)

If no authentic reports are available, use the fictitious reports of Alpha and Beta Co-operatives, included here.

Session Guide

1) Ask the trainees to recall the general expectations customers have of a consumer co-operative. These were listed at the beginning of the course and posted in the classroom (Session 1.2):

- an adequate assortment of goods;
- clean and unadulterated goods;
- low prices;
- proper weights and measures;
- correct information regarding qualities and use of goods;
- sufficient goods to meet demand;
- fair, impartial distribution of goods when shortages occur;
- respectful and responsive treatment from staff;
- convenient shop location.

The trainees should understand that a successful consumer co-operative must fulfil the expectations of its customers.

- 2) Tell the trainees to assume the role of shop managers who have been called to a committee meeting. The main topic on the agenda is the extent to which the managers fulfil expectations of their members.

Divide the trainees into small groups of three to five. Ask them to discuss the indicators they would like to use as evidence of customer satisfaction. After five or ten minutes, ask one group to suggest an indicator. Note it on the chalkboard and ask each group in turn to continue. Invite comment on the reliability of each indicator. Your list should appear something like the one below.

<u>Indicator</u>	<u>Comments</u>
- Number of different articles in stock.	- Tells only the <u>size</u> of the assortment, <u>not</u> whether it is <u>adequate</u> .
- Reaction from customers (e.g. statements in a "Suggestions Book").	- Reflects only the concerns and suggestions of some customers, <u>not</u> the <u>general opinion</u> of all members.
- The price level in the shop, compared to other shops.	- Reveals the co-operative's prices, but only on <u>some</u> goods. It is hardly possible to compare prices on <u>all</u> goods. Some essential items must be selected for comparison, although this may still not give a completely true general picture.
- Availability of essential items. (Out-of-stock situations.)	- An important measure of the service. A good way to measure this is to make a list of the most important goods and check regularly to see that these actually are in stock. (They should be, always.)
- Statistics showing the distribution of rationed goods.	- Indicate how well the co-op has managed to obtain and equitably distribute goods in short supply.
- Amounts of goods sold.	- Show to what extent customers have utilized the services provided.

The last indicator, the sales volume, is the most important one. The other criteria give valuable complementary information. If a co-operative shop has been opened to correct specific irregu-

larities on the market, it would be particularly interesting to measure performance in those fields.

- 3) Ask the trainees to consider the following case:

A co-operative shop has sold \$320,000 worth of goods this year. During the same period last year sales amounted to \$300,000. On average, prices on merchandise have increased 10% in a year. Has the shop sold more this year than last?

Have the trainees calculate the present selling value of the goods sold last year.

$$\$300,000 + \frac{10}{100} \times \$300,000 = \$330,000$$

This means that the shop has actually sold less merchandise this year.

Ask the trainees to give examples of factors other than inflation which should be considered when evaluating the development of sales. These might include:

- Changes in the population. Are there more or fewer people settled around the shop? Can they afford to spend more or less money on merchandise?
- Development of competing shops. Do their sales seem to increase or decrease?

- 4) Recall with the trainees why a consumer co-operative must make a net surplus. The reasons listed below were cited earlier (Session 2.2).

- to increase the working capital (stock of goods);
- to improve the shop building, equipment, etc. (investments);
- to replace borrowed capital with owned capital (repay loans);
- to create a reserve against possible future losses;
- to pay dividend on share capital;
- to pay patronage refund (bonuses) on purchases;
- to pay bonuses to the staff.

Although not all reasons apply to every co-operative, the trainees should recognize that without a reasonable net surplus no consumer co-operative can fulfill its customer expectations for long.

Conclude:

- the amount of goods sold will tell how well the aims of a co-operative were achieved during the past period;
- a net surplus will tell if a co-operative has been managed so that it can achieve its aims in the coming periods.

5) Tell the trainees that a consumer co-operative made a net surplus of \$10,000 last year. Ask them what else they need to know to be able to judge whether the result is satisfactory or not. They should mention:

- the size of the business in terms of sales;
- the return on the invested capital;
- the actual need for capital for investments, instalments on loans, dividends, and so on.

Use the calculations below as examples.

Sales

What is the net surplus as a percentage of the sales, if goods worth \$500,000 are sold?

$$\frac{\$ 10,000}{\$500,000} \times 100 = 2\%$$

Return on invested capital

What is the percentage of return on invested capital if members' share capital is \$120,000 and funds owned by the society amount to \$80,000 (reserve fund and others)?

$$\frac{\$10,000}{\$120,000 + 80,000} \times 100 = 5\%$$

This percentage should be compared with the rate of interest on a bank account. It is reasonable to expect that funds used by a co-operative give at least the same return as money deposited in a bank.

Need for capital

What is the total net surplus needed if the co-operative intends to:

- pay 3% interest on the share capital;
- increase the funds by 10% of their present value;
- pay 1.5% patronage refunds to members (sales to members were \$400,000);
- pay an instalment of \$2,000 on a bank loan?

$$\frac{3}{100} \times \$120,000 = \$ 3,600$$

$$\frac{10}{100} \times \$ 80,000 = \$ 8,000$$

$$\frac{1.5}{100} \times \$400,000 = \$ 6,000$$

\$ 2,000

Total required net surplus = \$19,600

Note that in this case the co-operative only managed to make a surplus of \$10,000, about half of the required amount. Instead of 2% of sales, a surplus of almost 4% was needed.

In these examples, the effect of taxation has been omitted since regulations differ. If co-operatives in your country have to pay tax on the surplus, the examples should be adapted accordingly.

- 6) Divide the trainees into groups of five to seven persons. Distribute copies of the annual reports from some consumer co-operatives (the balance sheets and the final accounts would do). (If these are not available, you may use the fictitious reports of Alpha and Beta Co-operatives, included here.)

Ask the trainees to analyse the results of the co-operatives. They should -

- a) calculate the net surplus as a percentage of the sales;
- b) calculate the return on invested capital (share capital + reserve fund), as a percentage;

- c) discuss which co-operative has achieved the best result;
- d) discuss whether the net surpluses are sufficient.

If the trainees are not used to reading annual reports it might be necessary to show them where to find the relevant figures. Go through one of the reports and carry out the calculations together, before the groups start working on their own.

Reconvene the class after some 20 minutes, or when they are ready. Ask some trainees to state the following key figures for each of the co-operatives. Note the figures on the chalkboard.

Net surplus in \$

Net surplus in I of sales

Return on capital in

Make sure everyone understands the calculations. Explain if necessary.

Ask the groups to give their opinions about the best result. Trainees should realize that both net surplus expressed as a percentage of sales and net surplus expressed as a percentage of invested capital are more useful measures than net surplus in dollars.

Ask the groups about the level of the net surplus in the various co-operatives. This question might be difficult to answer since it is not known exactly how much surplus a certain co-operative will need for different purposes (unless stated in the annual report). As a general rule, the surplus should amount to at least three to four percent of the turnover, and it should give a return on capital which is at least equal to the interest paid by the bank.

- 7) In some of the reports studied, the result (net surplus) was probably not satisfactory. (If this is not the case, distribute another annual report which shows a net loss.)

Explain to the trainees that if a co-operative needs to improve its result, it would be useful to know how improvements would be poss-

ible. This can be learned through detailed comparisons with other co-operatives.

Tell the trainees to first analyse the gross surplus. Ask them to find the gross surplus of the co-operative which got the least satisfactory result. If it is not stated in the final account, it could be calculated as below.

	Sales
less	Cost of goods purchased
less	Cost value of goods in stock at the beginning of the year
plus	Cost value <u>of goods in</u> stock at the end of the year
	Gross surplus on trade

Calculate the gross surplus as a percentage of sales. This is the actual trade margin on the goods sold.

Request the trainees to do the same calculations for the other co-operatives, and note the correct figures on the chalkboard.

Actual trade margin %

Compare the figures. Suggest that the actual margins are probably smaller than the co-operatives had planned, in some cases. Ask the trainees to offer possible explanations for this. Allow them to discuss their reasons briefly in small groups before answering. Their explanations should include:

- the margins originally decided upon "shrank" (on average) because of higher cost prices, lower selling prices or a larger number of low-margin items;
- larger leakage (goods disappearing without being paid for);
- price reductions (due to the necessity to sell goods at lower margins than originally planned).

The trainees should understand that in order to find the precise reason for the drop in margin, further investigation of the purchase and the stock control records would be necessary. Such a study would provide useful information as to which problem should get priority attention.

- 8) Tell the trainees to look at the costs of running the shop. They should study the final accounts of the "bad" co-operative and identify the largest costs.

Ask the trainees to calculate the three largest costs as a percentage of the turnover. They should do the same for the other co-operatives and compare the figures. Note them on the chalkboard as below.

Staff costs %

(Make sure that in your example the staff costs include the same types of costs in all reports.)

The trainees should notice if (for example) the staff costs expressed as a percentage of turnover are comparatively larger in a particular co-operative. They should realize that this indicates that the shop is overstaffed, when compared to its sales. In the same way they may find that building costs or some other costs are too high.

- 9) Remind the trainees that inefficient use of working capital could be another reason for an unsatisfactory result. That happens if the funds available for purchase of goods are wrongly spent. Ask trainees for examples, such as:

- goods purchased in too-large quantities;
- goods little in demand being kept in stock.

In both cases, if money had been used for purchase of more fast-selling goods, the income from sales would have increased (and, hence, the surplus).

Remind the trainees that the complete stock of goods will be renewed several times a year if the right commodities are purchased in the right quantities.

Ask the trainees which of the co-operatives seems to have managed its stock best. Show them where to find the stock value in the balance sheet. Instruct them to calculate the average stock value if both the ingoing and the outgoing values are stated. They should then find which co-operative has the highest sale in relation to the stock value. Give as example:

- A shop has sales of \$300,000 and keeps an average stock of \$15,000. The turnover is 20 times the stock value.

$$\frac{\$300,000}{\$15,000} = 20$$

The trainees may carry out the assignment in small groups. Check their calculations. They should appreciate that a low rate of stock turn compared to other co-operatives dealing in the same type of merchandise indicates that purchasing needs more attention.

They should note that to get a correct rate of stock turn they must know the selling value of the average stock. However, as long as the rate is calculated in the same way for all co-operatives compared, it does not affect the conclusion.

- 10) Point out that analysing and comparing the annual reports of similar co-operatives can give useful information as to which problems need attention.

The development of a co-operative can be followed in the same way, through analysis and comparison of subsequent annual reports.

Divide the trainees into groups again, distributing copies of the subsequent annual reports and requesting them to carry out all the analyses covered in this session. They should discuss the development of the society and be prepared to give some comments. Remind them particularly about the problems of inflation, and ask them to see if the working capital has been increased more than the rate of inflation. (Explain that working capital is defined as the current assets less the current liabilities.)

Reconvene the class when the trainees are ready. Ask representatives of the groups to report the results of the calculations and their conclusions.

ALPHA CONSUMERS CO-OPERATIVE SOCIETYTRADING ACCOUNT

	<u>Year 2</u>		<u>Year 1</u>
<u>Income</u>			
Sales	1,400,000		1,275,000
<u>Cost of goods</u>			
Opening stock	188,000		202,000
Purchases	1,274,000		1,159,000
Closing stock	<u>- 192,000</u>	<u>1,270,000</u>	<u>- 188,000</u> <u>1,173,000</u>
<u>Gross surplus</u>		130,000	102,000
<u>Cost of operations</u>			
Salaries	42,000		40,500
Allowances	3,000		2,800
Travel	1,500		2,000
Maintenance	5,700		4,800
Licences	1,200		1,200
Interest	800		1,400
Depreciation	8,400		8,200
Other expenses	<u>2,200</u>	<u>64,800</u>	<u>3,300</u> <u>64,200</u>
<u>Net surplus</u>		65,200	37,800

BALANCE SHEET at the end of

	<u>Year 2</u>		<u>Year 1</u>
<u>LIABILITIES</u>			
<u>Owned capital</u>			
Shares	158,000		152,000
Reserve fund	30,000		25,000
Appropriation a/c	<u>65,200</u>	253,200	<u>37,800</u> 214,800
<u>Long-term liabilities</u>			
Bank loan		18,000	25,000
<u>Current liabilities</u>			
Owed to suppliers	12,400		14,200
Expenses accrued	<u>16,200</u>	<u>28,600</u>	<u>16,800</u> <u>31,000</u>
TOTAL		299,800	270,800
<u>ASSETS</u>			
<u>Fixed assets</u>			
Shop building	40,000		44,000
Fixtures	<u>7,500</u>	47,500	<u>8,000</u> 52,000
<u>Current assets</u>			
Cash in hand	1,900		2,100
Cash at bank	58,400		28,-700
Stock of goods	<u>192,000</u>	<u>252,300</u>	<u>188,000</u> <u>218,800</u>
TOTAL		299,800	270,800

BETA CONSUMER CO-OPERATIVE SOCIETYTRADING ACCOUNT

	<u>Year 2</u>		<u>Year 1</u>	
<u>Income</u>				
Sales		652,000		625,000
<u>Cost of goods</u>				
Opening stock	92,000		90,000	
Purchases	603,000		573,000	
Closing stock	<u>- 98,000</u>	<u>597,000</u>	<u>- 92,000</u>	<u>571,000</u>
<u>Gross surplus</u>		55,000		54,000
<u>Cost of operations</u>				
Salaries	27,000		21,500	
Allowances	3,000		2,800	
Travel	2,300		2,100	
Maintenance	4,500		3,200	
Licences	1,200		1,200	
Interest	1,800		2,100	
Depreciation	4,200		4,100	
Other expenses	<u>3,200</u>	<u>47,200</u>	<u>2,100</u>	<u>39,100</u>
<u>Net surplus</u>		7,800		14,900

BALANCE SHEET at the end of

	<u>Year 2</u>		<u>Year 1</u>	
<u>LIABILITIES</u>				
<u>Owned capital</u>				
Shares	72,000		72,000	
Reserve fund	15,000		13,800	
Appropriation a/c	<u>7,800</u>	94,800	<u>14,900</u>	100,700
<u>Long-term liabilities</u>				
Bank loan		20,000		22,000
<u>Current liabilities</u>				
Owed to suppliers	18,000		24,000	
Expenses accrued	3,000		2,200	
Bank overdraft	<u>12,000</u>	<u>33,000</u>	<u>-</u>	<u>26,200</u>
TOTAL		147,800		148,900
<u>ASSETS</u>				
<u>Fixed assets</u>				
Shop building	32,000		36,000	
Fixtures	<u>3,000</u>	35,000	<u>3,300</u>	39,300
<u>Current assets</u>				
Cash in hand	2,400		700	
Cash at bank	12,400		16,900	
Stock of goods	<u>98,000</u>	<u>112,800</u>	<u>92,000</u>	<u>109,600</u>
TOTAL		147,800		148,900

SESSION 9.2HOW TO MONITOR BUSINESS PERFORMANCE

Objective : To enable trainees to effectively monitor the performance of a consumer co-operative and check the business results regularly.

Time : 1 1/2 - 2 hours.

Material : Exercise "Monitoring Business Performance".
Sample Sales Charts.
Case-study "Progress Co-operative Society".

Session Guide :

- 1) Remind the trainees about the exercise in the previous session where they extracted useful information from balance sheets and final accounts. Find out how many of them are actually well informed about the performance of their own societies over the past financial year. Undoubtedly some will say that their annual reports were delayed so that they do not as yet know the results.

Discuss and sum up the problems of relying only on the annual report for the assessment and follow up of business results:

it may be too late to take remedial action when the annual report eventually is released and the facts are known;

it is not enough to check the results once a year, continual follow-up is necessary.

- 2) Ask trainees which key figures they must monitor in their businesses to be sure that they will achieve the expected result. Have them discuss this in small groups for a few minutes before responding. The following items should be mentioned and noted on the chalkboard:

- Sales The amount of merchandise sold and the margin
- Margin will determine the size of the gross surplus.

- Cash, shortages "Lost" cash and merchandise must be avoided
- Leakage if adequate gross surplus is to be maintained.
- Rate of stock turn Working capital must be used efficiently, not locked up in goods which do not "move" quickly enough.
- Operating costs The cost of running the shop must not exceed the gross surplus.
- Wages Payments to staff are usually the highest of the operating costs and should be carefully monitored.

3) Distribute the handout "Monitoring Business Performance". Ask the trainees to carry out the assignment in small groups. After some 15 minutes ask one group to give its opinion on sales, another on margins, and so on. Ascertain that all trainees understand how to carry out the requisite controls. Include the points listed below.

- Sales

All sales are to be recorded in the shop and accounted for daily. (Ref. Sessions 8.1 - 8.3)

To check on the growth of a business it is necessary to add up the sales for every month and compare these figures with those of the same month or week of the previous year. For growth to occur, there should be an increase which exceeds the rate of inflation. (Example: Sales last April were \$2,000; this April, \$2,200. But due to inflation, prices have gone up 10% during the last year; so the shop has actually not sold more goods this year. This is a cause for concern.)

It is a good idea to use a chart to visualize sales development. Hand out the samples A and B as a model for the trainees' own charts.

- Margin

All purchases are to be recorded at both cost price and selling price. The average margin should be calculated on the total monthly purchases. (Ref. Session 6.2, Item 6)

If it is found that the average margin is declining compared to previous months, action must be taken.

- Cash shortages

All cash transactions in the shop (sales and others) are to be recorded. The recorded total amount should be checked daily against the actual amount of cash. (Ref. Sessions 8.1 - 8.3) Any cash shortages should be investigated immediately.

- Leakage

Stock records should be kept at selling prices so that the stock value according to the records can be compared to the actual stock value as determined through stock-takings. (Ref. Session 7.4) Stock-takings and leakage estimates should be carried out monthly. If the leakage is found to be at an acceptable level over a period of several months, the intervals between stock-takings may be extended.

- Rate of stock turn

The total sales over a period of time (for example, a month) should be compared to the average stock value (which can be found in the stock records). (Ref. Session 2.1, Item 7)

The rate of stock turn should also be checked over longer periods (for instance, a quarter and a whole year).

- Operating costs

At least the main costs, and particularly the wages (the largest cost) should be checked monthly or quarterly.

It is advisable to calculate operating costs as a percentage of sales. Check that the percentage does not increase and that it is lower than the margin percentage.

Through this exercise, the trainees have clearly demonstrated that it is possible to monitor business results continually, without waiting for an annual report and final accounts.

- 4) Distribute the case-study "Progress Co-operative Society". Allow the trainees, working in small groups, some 20 minutes for the assignment.

Ask the groups to comment on the development of the society. They should mention these factors.

- Sales

Due to price increases the goods sold last July would now be worth 5% more, that is $1.05 \times \$48,000 = \$50,400$.

Thus, the real increase in sales is just \$100, a very small amount.

- Margin

The average margin for July is $\$45,000 - \$41,850 = \$3,150$. This is equal to 7%.

$$\frac{3,150}{45,000} \times 100 = 7\%$$

The margin is lower than usual. The manager should pay attention to this. Will it be possible for him to increase prices on some items? Can more of the high-margin goods be sold?

- Leakage

Opening stock	42,500
Purchases	+ 45,000
Sales	- <u>50,500</u>
Theoretical stock	37,000
Actual stock	- <u>36,500</u>
Leakage	500

The rate of leakage is $\frac{500}{50,500} \times 100 = 1\%$ of the sales, approximately.

That rate is too high! The manager should start looking for the reasons for it immediately and take action.

- Cash shortages

Recorded sales 31.7	2,200
Share paid in	+ 20
Paid out	<u>- 40</u>
Recorded cash	2,180
Actual cash	<u>2,175</u>
Cash shortage	5

This may not be so serious, since the shortage is quite small and there have been no shortages for a long time.

- Rate of stock turn

The value of the average stock is $\frac{\$42,500 + \$36,500}{2} = \$39,500$

Rate of stock turn is $\frac{50,500}{39,500} = 1.28$

The stock is turned 1.28 times per month; the working capital is thus used fairly efficiently.

- Operating costs

Only the cost of wages is known. It is:

$$\frac{1,500}{50,500} \times 100 = 3\% \text{ of the sales, approximately.}$$

This is a little more than normal. If more staff have been employed, sales should also increase.

Sum up by asking the trainees their general opinions about the development of this shop. They should realize that there are some bad signs: little increase in sales, increased leakage, lower margin, etc. As this has been discovered immediately, the shop manager can take quick action and prevent possible loss in the coming months.

Monitoring Business Performance

A successful shop manager must ensure that:

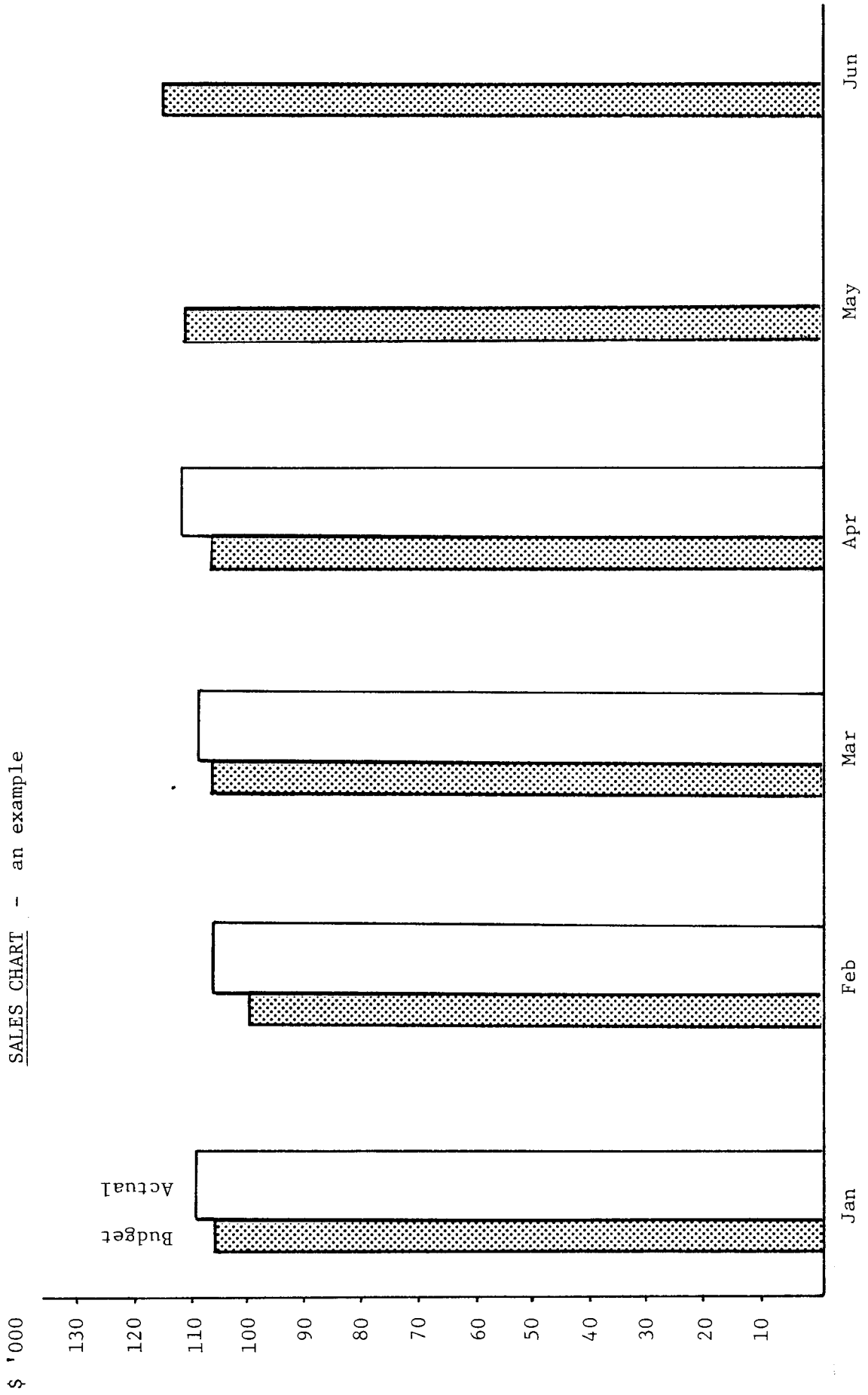
- a) a sufficient amount of merchandise is sold;
- b) the margin is sufficient;
- c) there are no cash shortages;
- d) leakage is minimized;
- e) the working capital is used efficiently (meaning that the rate of stock turn is high);
- f) the costs for running the shop are low.

Assignment

Suggest how a manager can monitor and measure the factors above.

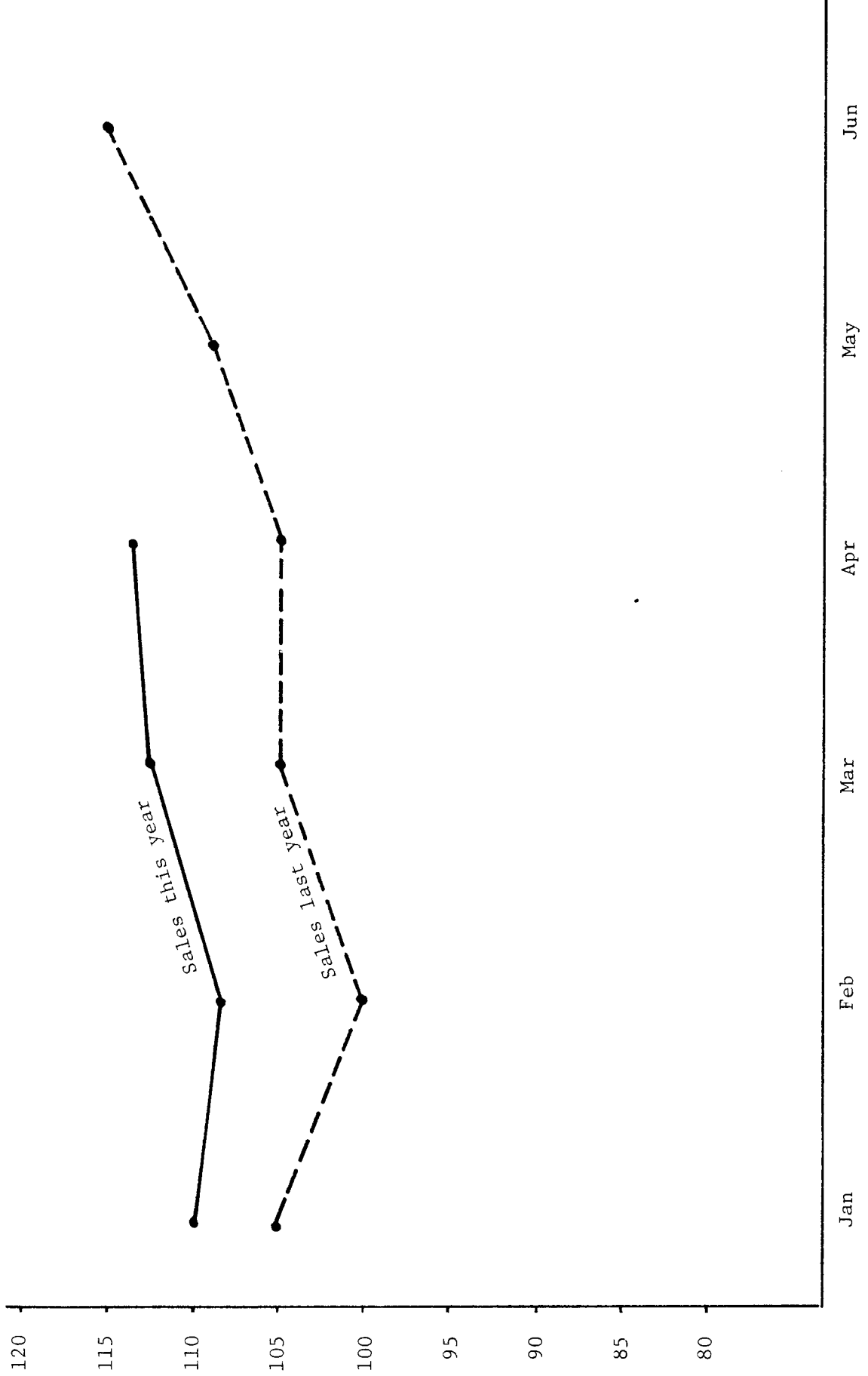
How often should the manager check these matters?

SALES CHART - an example



SALES CHART - an example

\$ '000



Progress Co-operative Society

Information on Progress Co-operative Society:

- Sales during July amounted to \$50,500. In July last year the sales were \$48,000. Prices have generally increased by 5% over the last year.
- The goods purchased in July were worth \$41,850 at cost price and \$45,000 at selling price. The average margin is usually between 7.2 and 7.4%.
- On 1 July the actual value of the stock was \$42,500 at selling price. Goods were purchased and sold during July as mentioned above, but there were no other stock transactions. On 31 July a stock-taking showed that the stock value was \$36,500. In Progress Society a leakage below 0.5% is considered as acceptable.
- The rate of stock turn is usually a bit faster than once a month.
- The cash was checked daily. There were no shortages in July until the last day, when \$2,175 was in the cashbox at the end of the day; but according to the records, sales amounted to \$2,200. One member had paid \$20 for a share and \$40 had been paid out to casual labourers.
- Staff costs are the highest expenditures of the shop. They are usually between 2.7 and 2.9% of the sales. In July the wages to the staff were \$1,500.

Assignment

Assess the performance of the Progress Society's shop during July and advise the manager accordingly.

SESSION 9.3BUDGETS AND TRADING REPORTS

Objective: To enable trainees to prepare budgets (estimates) and trading reports for a co-operative shop.

Time: 2 - 2 1/2 hours.

Material: Exercises "Estimating Sales"
"Estimating Gross Surplus"
"Estimating Operating Costs"
"Estimates for Kanamai Co-operative"
"Preparing Monthly Estimates"
"Preparing Trading Reports"
"Calculating the Cost of Goods"

Session Guide:

- 1) Refer to the assessment of Progress Co-operative Society in the previous session. (Findings: the sales one month were \$50,500, the margin was 7% and the leakage was 1%.)

Ask the trainees what those figures told us about the performance of the shop. Emphasize the fact that the figures were not very useful until they were compared with the expected results.

Recall with the trainees how figures for those expected results were established by considering:

- Previous results (sales, margin);
- what is normal for this type of business (leakage, stock turn, operating costs);
- changes of certain conditions, which may affect the results (inflation affected the sales, for instance).

Emphasize that it is not enough to compare actual results with previous figures. Any changes that affect results must be considered as well. Inflation is one example; ask the trainees for others. They might include:

- expansion of the shop (a new building or a better assortment of goods should increase sales);
- changes in price regulations (increased margins should create a higher surplus);
- change from counter-service to self-service (sales and leakage would probably increase, while staff costs in relation to sales should decrease);
- change in competition (a new shop opening nearby might reduce sales);
- change in staffing (costs would increase if more staff were employed but services and sales should improve).

Explain that a shop manager with information about previous and normal result-figures and changes affecting future shop performance will be able to estimate in advance the results of his business operations. Point out that it is useful for a manager to prepare such estimates (or a budget) because:

- it makes it possible to compare actual results with estimated expected results and to act quickly if it is discovered that results are below estimates;
- a budget may also be required by authorities before a business license is issued, by a co-operative union for overall planning, or by a bank in connection with a loan application.

2) Now introduce the trainees to an exercise on estimating sales for a co-operative shop. Ask them what information they will require to make a realistic estimate. It includes:

- sales of the previous year(s);
- unusual events affecting sales during the previous year;
- the rate of inflation;
- anticipated changes affecting sales during the coming year.

Distribute the exercise "Estimating Sales". Have the trainees work together in small groups for some 15 minutes before offering their solution.

a) Sales January - June this year	800,000
Correction for unusual event	- <u>100,000</u>
Sales January - June in a normal situation	700,000
Inflation 5%	+ <u>35,000</u>
	735,000
Expected increase in sales 10%	+ <u>73,500</u>
Estimated sales January - June next year	808,500

Present this table on the chalkboard and explain it carefully.

- If sales had been "normal" during January - June they would have amounted to \$700,000 (that is, \$800,000 minus the extra sales of \$100,000 in May, which would not have occurred in a "normal" year).
- A 5% price increase on goods was expected, so sales would be \$700,000 + \$35,000 in January - June next year, if the same amount of goods were sold.
- But a 10% increase in the amount of goods sold was also expected, as in previous years. That meant another \$73,500, or total sales of \$808,500. (This expected 10% increase in sales must be included only if there are definite signs that the shop will continue to attract new customers.)

b) Sales January - October this year	1,400,000
Less sales January - June	- <u>800,000</u>
Sales July - October this year	600,000
Expected sales this November - December	+ <u>300,000</u>
	900,000
Inflation 5%	<u>45,000</u>
	945,000
Expected increase in sales 50%	+ <u>472,500</u>
Estimated sales July - December next year	1,417,500

Explain this table as above. Ask your trainees why they should not expect a higher increase than 50%, although another shop even doubled its sales when self-service was introduced. The trainees should understand that it is impossible to make an exact estimate; it is better to be "on the safe side" and keep the estimate low. If income is overestimated, the management might be misled and increase expenditures.

Have the trainees add up the estimates to get the sales for the whole year ($\$808,500 + \$1,417,500 = \$2,226,000$). Point out that the figures in a budget are usually "rounded off". They might otherwise give an impression of accuracy which we do not need and cannot achieve in budget work.

- 3) Tell the trainees that the purchase records of Kanamai Co-operative show an average margin of 10.5%. Ask the trainees why the margin actually earned by that society will be less than 10.5%. (Leakage will reduce the margin.)

Distribute the exercise "Estimating Gross Surplus". Let the trainees work in the same groups as before. Allow about five minutes for calculations; then ask for the correct answers.

- a) The margin January - June is 10.0%.
The margin July - December is $10.0\% + 1.0\% - 0.5\% = 10.5\%$.
- b) The expected gross surplus:
- | | | | |
|------------------|----------------------|---|-----------|
| January - June: | 10% of \$808,500 | = | \$80,850 |
| July - December: | 10.5% of \$1,417,500 | = | \$148,837 |

- 4) Distribute the exercise "Estimating Operating Costs" and the table "Estimates for Kanamai Co-operative". The groups may need some 20 minutes for calculations. Meanwhile, prepare tables (below) on the chalkboard to facilitate group reports.

a) <u>Salaries</u>	January - June	6 x \$5,000	=	\$30,000
	+ 5% increase			<u>1,500</u>
				31,500
	July - December, old staff			31,500
	+ new staff	6 x \$1,700		10,200
	+ extra staff			<u>600</u>
				\$42,300

<u>Other operating costs:</u>	January - June	6 x \$2,500	=	\$15,000
		+ 5%		<u>750</u>
				15,750
	July - December			15,750
		+ 30%		<u>4,725</u>
				20,475
 <u>Depreciation:</u>	January - June	\$12,000 : 2	\$	6,000
	July - December			6,000
	+ new building	\$18,000 : 2		<u>9,000</u>
				\$15,000

b) The complete estimates

	January - June		July - Dec.		Total	
	\$	%	\$	%	\$	%
Sales	808,500	100	1,417,500	100	2,226,000	100
Gross surplus	80,850	10.0	148,837	10.5	229,687	10.3
Less: Salaries	31,500	3.9	42,300	3.0	73,800	3.3
Other op. costs	15,750	1.9	20,475	1.4	36,225	1.6
Depreciation	6,000	0.7	15,000	1.1	21,000	0.9
Net surplus	27,600	3.4	71,062	5.0	98,662	4.4

Emphasize again that budget figures should be rounded off. However, for the purposes of this and the following exercises we keep them as they are.

- 5) Ask the trainees to study the completed estimates and compare the figures for the first and the second half year. Ask them to identify the differences which are caused by the planned extension to the shop and the change to self-service:
- sales and costs will increase (in money terms);
 - the margin will increase (from 10.0 to 10.5%);

- a relatively smaller part of the income from sales will be used for salaries and other operational costs (see the percentage figures). Thus the shop will be run more efficiently;
- due to the new investments, the depreciation cost will increase both in money terms and as a percentage of sales.

Point out that the opening of the self-service will mean a great change. This is the reason why two budgets were prepared: one for the period before and one for the period after the change. If no event of similar importance is expected, it is possible to prepare one budget to cover the whole year.

- 6) With the trainees, recall the reasons why we prepare a budget: to be able to compare the actual results with the planned, expected results (the budget) and to quickly discover any problems. Point out that the budget for Kanamai shows the expected results after half a year's operation, but we have earlier agreed that results should be checked every month.

What can we do to make the Kanamai budget more useful as a tool for our follow-up of results? Ask a trainee to demonstrate how the figures for six months can be divided and distributed evenly over that time. The estimates for each month January - June should be as indicated below.

Sales	\$134,750
Gross surplus	13,475
Less: Salaries	5,250
Other op. costs	2,625
Depreciation	<u>1,000</u>
Net surplus	\$ 4,600

Ask your trainees if they accept this average monthly budget as realistic and useful for follow-up work. Someone is likely to object, correctly, that sales and/or costs may vary from one month to another so that these "average" figures do not actually reflect reality.

- 7) Distribute the exercise "Preparing Monthly Estimates" and allow the groups some 20 minutes to complete the necessary calculations. Check to be sure that each group has the correct solution.

	July	Aug	Sep	Oct	Nov	Dec	July-Dec.	%
Sales	190,000	180,000	200,000	285,000	352,500	210,000	1,417,500	100
Gross surplus	19,950	18,900	21,000	29,925	37,012	22,050	148,837	10.5
Less:								
Salaries	6,950	6,950	6,950	7,250	7,250	6,950	42,300	3.0
Other costs	3,000	3,000	4,000	3,000	3,000	4,475	20,475	1.4
Depreciation	2,500	2,500	2,500	2,500	2,500	2,500	15,000	1.1
Net surplus	7,500	6,450	7,550	17,175	24,262	8,125	71,062	5.0

Net surplus %	3.9	3.6	3.8	6.0	6.9	3.9	5.0	
---------------	-----	-----	-----	-----	-----	-----	-----	--

Make sure that all trainees observe the higher efficiency of the operations expected in October and November when sales are high; the net surplus percentage is then much higher than in other months.

- 8) Distribute the exercise "Preparing a Trading Report". Allow a few minutes for the group work while you draw the table, without figures, on the chalkboard. Ask some trainees to fill in the figures.

Trading Report for the Month of: July

	Budget		Actual	
	\$	%	\$	%
Sales	190,000	100	192,000	100
Gross surplus	19,950	10.5	19,776	10.3
Less: Salaries	6,950	3.7	6,875	3.6
Other op. costs	3,000	1.6	3,250	1.7
Depreciation	2,500	1.3	2,500	1.3
Net surplus	7,500	3.9	7,151	3.7

Emphasize again the usefulness of the budget; it is a tool for planning and it is subsequently used to analyse the results.

Ask the trainees what they can say about the results after having studied this report: they should note that the net surplus is lower than expected and the reason is the low average margin. Thus the manager ought to pay attention to his selling prices and/or the stock range.

- 9) Explain to the trainees that this is one way of preparing a trading report. Ask them to identify its shortcomings. How could the report be more accurate? Try to elicit the fact that we do not know either the actual cost of the goods sold and thus not exactly how much gross surplus we have earned. Instead we have calculated this by using the average margin percentage (which we can see in the records) and reducing by the expected leakage percentage. Consequently, we will not know, for sure, what the leakage has actually been this period.

Ask the trainees if they can suggest how to find the cost of goods which actually left the shop during that month. The method is outlined below.

Opening stock	(determined through a stock-taking)
± <u>Purchases</u>	
= Total available stock	
- <u>Closing stock</u>	(determined through a stock-taking)
= Cost of goods	(this includes both the cost of goods sold and that of other goods lost through leakage)

Ask whether selling prices or cost prices should be used for this calculation (the correct answer is cost prices). Discuss the fact that usually selling prices are recorded during stock-takings, for practical reasons. This could present a problem except for the fact that the stock value at cost price can easily be calculated when we know the average margin. Example:

The stock value at selling price is today \$82,500.

According to the purchase records, the average margin has been 12% during the last month.

Consequently, the stock value at cost price is 12% below \$82,500, that is \$72,600.

Somebody may object that the goods purchased during the last month may not be exactly the same as the sold goods. This is correct, but must be ignored, since there are no other practical methods of calculation. The difference in any case is likely to be very small.

- 10) Distribute the final exercise "Calculating the Cost of Goods". After some ten minutes, ask a group to present the solution.

a)	Opening stock	\$ 96,660	(10.5% below \$108,000)
	± <u>Purchases</u>	+ <u>195,190</u>	
	= Total available stock	291,850	
	= <u>Closing stock</u>	= <u>119,745</u>	(11.3% below 135,000)
	= Cost of goods	\$ 172,105	

Trading Report for the Month of: July

	Budget		Actual	
	\$	%	\$	%
Sales	190,000	100	192,000	100
Cost of goods			172,105	
Gross surplus	19,950	10.5	19,895	10.4
Less: Salaries	6,950	3.7	6,875	3.6
Other op. costs	3,000	1.6	3,250	1.7
Depreciation	2,500	1.3	2,500	1.3
Net surplus	7,500	3.9	7,270	3.8

Compare this report with the previous one. Point out again that we have a more exact measure of the achieved margin in the latter report, because we counted the stock and established more exactly the cost of the goods sold. In this case we found that the margin was a bit higher, because the leakage was lower than expected.

Sum up: the first method of preparing trading reports can be used when stock-takings are not done. They will give a fairly correct result as long as the leakage does not differ too much from the expected level.

Estimating Sales

It is now the month of November, and the budget for next year has to be prepared in Kanamai Co-operative Society. First, an estimate of the sales during the coming year will be made. The following information is available:

- This year, the sales up to the end of October, are \$1,400,000.
- In May this year the sales were expected to be about \$110,000, but the actual sales were \$210,000. The reason was that the owner of a nearby private shop was seriously ill and had to close his shop temporarily.
- The sales for November - December are expected to be \$300,000.
- Next year, on 1 July, the society will have an extension to the building ready and will go over to self-service. Similar changes in other shops have made their sales increase by at least 50%. One shop even managed to double the sales.
- Sales during the first half of this year were \$800,000.
- The present rate of inflation is about 5% and it will probably be the same next year.
- The shop has developed very well. In recent years the sales have increased about 10% annually on top of inflation. The reason for this is the constant improvement in management, services and stock range.

Assignment

Estimate the sales for:

- a) January - June next year;
- b) July - December next year.

Estimating Gross Surplus

According to the purchase records, the Kanamai Co-operative has an average margin of 10.5% on its sales. However, due to leakage it can usually realize a margin of 10.0% only on the actual sales.

These figures are not expected to change in the near future. But after the shop introduces self-service in July next year, it is expected that the margin will be affected by the factors below.

- The stock range will be expanded. More "high-margin items" will be included, so that the average margin will increase by 1%.
- Leakage may increase; it is usually higher in self-service shops. According to local experience it may increase by 0.5%. For the sake of simplicity, it is assumed that the margin will change by the same percentage.

Assignment

- a) What are the expected margins for January - June and for July - December next year?
- b) Calculate the expected gross surplus for the same periods. (Sales are estimated to be \$808,500 and \$1,417,500 respectively.)

Estimating Operating Costs

The following is known about the expenditures in Kanamai Co-operative:

- The total salary cost per month is at present \$5,000. A general increase of 5% is expected from 1 January.
- Other operating costs amount to \$2,500 per month. These costs are expected to go up by 5%, due to inflation.
- The depreciation cost is \$12,000 per year.

When the shop is turned into a self-service shop on 1 July next year, there will be some changes:

- An assistant manager and one more shop assistant will be employed. Their salaries will be \$1,700 per month altogether, including the general increase. Some extra staff may be needed during the peak period; \$600 should be estimated for this.
- Other operating costs are expected to increase by 30%.
- Investments in the expanded shop building and new fixtures will increase the depreciation cost by \$18,000 per year.

Assignment

- a) Estimate the operating costs for next year.
- b) Complete the estimates for Kanamai Co-operative. Use the attached table. Note that costs and surplus should also be stated as a percentage of the sales.

ESTIMATES FOR KANAMAI CO-OPERATIVE

Year

	January - June		July - Dec.		Total	
	\$	%	\$	%	\$	%
Sales		100		100		100
Gross surplus						
Less: Salaries						
Other op. costs						
Depreciation						
Net surplus						

Preparing Monthly Estimates

	July	Aug	Sep	Oct	Nov	Dec	July-Dec.	%
Sales	190,000	180,000	200,000	285,000	352,500	210,000	1,417,500	100
Gross surplus							148,837	10.5
Less:								
Salaries							42,300	3.0
Other costs							20,475	1.4
Depreciation							15,000	1.1
Net surplus							71,062	5.0

Net surplus %								
---------------	--	--	--	--	--	--	--	--

Assignment

Prepare monthly estimates for July - December for Kanamai Co-operative. Use the table above and base your estimates on the following information:

- The highest sales in Kanamai are always recorded in October - November when farmers are paid for their crops. In the table above the sales have already been estimated month-by-month, according to variations experienced during previous years.
- The average margin is not expected to vary.
- The total monthly salaries to permanent staff are \$6,950. In October and November an extra part-time assistant will be hired for \$300 per month.
- The costs of operation the shop are about the same every month, but note that an electricity bill of some \$1,000 is to be paid in September. Insurance and license fees of \$1,475 are due to be paid in December.

Preparing Trading Reports

To be able to follow up on his plans and monitor the result of the business, the manager of Kanamai Co-operative prepared a Trading Report at the end of every month.

For the report he used a form which had one column for the budget figures and another for the actually achieved results.

Trading Report for the Month of: July

	Budget		Actual	
	\$	%	\$	%
Sales	190,000	100		
Gross surplus	19,950	10.5		
Less: Salaries	6,950	3.7		
Other op. costs	3,000	1.6		
Depreciation	2,500	1.3		
Net surplus	7,500	3.9		

Assignment

Fill in the Trading Report.

- The recorded sales are \$192,000.
- The average margin on purchases during July is 11.3%, according to the purchase records. There was no stock-taking in July, so we do not know the leakage. However, the manager expects leakage to reduce the margin by 1%. (We know that he planned a margin of 11.5% but in the budget it is reduced to 10.5%.)
- Salary costs were only \$6,875 as one shop assistant had some unpaid leave-days.
- Other operating costs amounted to \$3,250.

Calculating the Cost of GoodsAssignment

- a) Calculate the cost of goods for July, on the basis of this information.
- according to a stock-taking, the stock value at selling prices on 30 June was \$108,000;
 - the average margin in June, according to the purchase records, was 10.5%;
 - the total purchases of goods in July were \$195,190 at cost price;
 - the average margin in July, according to the purchase records, was 11.3%;
 - on 31 July the stock value at selling price was \$135,000, according to a stock-taking.
- b) Complete the Trading Report. To find the gross surplus, use the actual cost of goods for your calculations, not just the expected margin percentage.

Trading Report for the Month of: July

	Budget		Actual	
	\$	%	\$	%
Sales	190,000	100	192,000	100
Cost of goods				
Gross surplus	19,950	10.5		
Less: Salaries	6,950	3.7	6,875	3.6
Other op. costs	3,000	1.6	3,250	1.7
Depreciation	2,500	1.3	2,500	1.3
Net surplus	7,500	3.9		

SESSION 9.4DIVISION OF DUTIES AND RESPONSIBILITIES

Objective : To enable trainees to identify the duties and responsibilities of committee members and managers in a co-operative society.

Time 1 hour.

Material : Case-study "Who is Doing What?"

Session Guide :

- 1) Ask some trainees to describe how the work of managing their shops is divided between committee members and staff; who is doing what?

The cases presented will certainly illustrate a common problem in this field: responsibilities not clearly defined. The result is confusion and conflict. The examples further show that the duties of shop managers vary considerably from one society to another. Ask the trainees why this is so. Try to elicit the following reasons:

- the experience and the knowledge of the manager;
- the experience and the knowledge of the committee members;
the role of the secretary and/or treasurer;
- the number of staff in relation to the size of the business.

Point out that regardless of the experience and qualifications of the people involved, it is of utmost importance that they agree on a suitable distribution of duties. The case-study below will help them plan this.

- 2) Divide the class into groups of five to seven trainees. Distribute the case "Who is Doing What?" Instruct the groups to write their suggestions on OHP transparencies or large sheets of paper to facilitate their reporting. Show an example on the chalkboard:

TASK	Duties of the MANAGER	Duties of the COMMITTEE
Preparing budgets.	Provide information and statistics. Assist in calculating and drafting a budget.	Assess the estimates. Approve the budget.

Allow the groups some 30 minutes for the assignment. Then reconvene the class and ask the groups to present their suggestions. Let trainees comment after each group presentation. The suggestions will of course vary, but it is important that there is no confusion and that all tasks are clearly divided. An example follows.

TASK	Duties of the MANAGER	Duties of the COMMITTEE
Preparing budgets.	Provide information and statistics. Assist in calculating and drafting a budget.	Assess the estimates. Approve the budget.
Keeping records.	Record all daily transactions in the shop. Prepare daily summary reports for the accountant.	Check that books are up-to-date.
Following up the result.	Check the key figures continually, such as: sales, average margin, main costs. Explain reasons for deviations from the budget and suggest remedial actions.	Evaluate the monthly trading reports. Decide on necessary remedial actions when necessary.
Deciding on the stock range.	Develop the stock-range within the approved stock policy. Suggest changes to the policy, based on customer demands.	Decide on a stock policy, stating lines of goods, width and depth of the assortment.
Purchasing goods.	Decide ordering intervals and quantities so that the working capital is used efficiently and out-of-stock situations are avoided. Prepare orders. Check deliveries.	Approve suppliers and payment conditions. Authorize payments. Check the rate of stock turn.
Fixing selling prices.	Suggest margins on non-price-controlled goods so that the planned average margin will be achieved. Calculate selling prices, applying decided margins.	Decide on a pricing policy. Check to see that the planned margin is achieved.

TASK	Duties of the MANAGER	Duties of the COMMITTEE
Handling the goods.	Store and display goods properly, ensure cleanliness. Display prices clearly. Avoid wastage of goods. Minimize leakage.	Check the leakage continually. In case of high leakage, investigate reasons, take action.
Stock-taking.	Organize and carry out the stock-taking.	Decide when stock-takings should be done. Check that the recorded value of the goods is correct.
Handling the cash.	Supervise all cash handling in the shop. Ensure that all transactions are recorded. Check the cash daily, report any shortages to the committee.	Follow up on cash control and decide on action in case of shortages.
Serving customers.	Charge correct prices. Treat all customers friendly. Offer fair services to all customers in accordance with the policy of the society.	Decide on a policy for sales and services.
Managing the staff.	Distribute the tasks of shop assistants. Supervise, guide and train staff.	Employ staff. Decide on salaries and other employment conditions.

Sum up by stressing that, in general, a qualified shop manager should be responsible for all the daily operations in the shop (i.e. offering good service to the members in accordance with the aims of the society, while taking good care of the goods and money in his custody and keeping leakage at a minimum). The main duties of a committee should be to outline the policies of the society and to plan and control the economy of the shop.

Who is Doing What?

Some years ago the villagers in Meru formed a co-operative society and opened a shop. From the beginning the elected committee members were very active and hard-working. In fact, during the first year no staff was employed; the committee members shared all the work of running the shop. As the business developed, it became necessary to employ a shop attendant, but some committee members continued to give a hand.

It has now been decided to open a new, bigger shop. The committee realizes that more staff will be needed. Fortunately, an experienced shop manager has been found. It is also planned to employ two more attendants.

The new shop manager has told the committee that before he begins his work he would like to have clear instructions as to his duties and responsibilities so that there will be no problems between him and the committee in the future.

Assignment

Assist this co-operative society by suggesting how it should divide the work between the committee and the manager. The main duties comprise several tasks. Who should do what?

- Preparing budgets.
- Keeping records.
- Monitoring the results.
- Deciding on the stock range.
- Purchasing goods.
- Fixing selling prices.
- Handling the goods.
- Taking stock.
- Handling the cash.
- Serving customers.
- Managing the staff.

topic

10

action commitment

Session 10.1 Action Commitment

SESSION 10.1ACTION PROGRAMME AND COMMITMENT

Objective: To enable trainees to apply what they have learned to their own situations, to develop a solution to a specific problem with the assistance of the group, and to commit themselves to its implementation by a given time.

Time: Up to one day.

Session Guide:

- 1) Remind the trainees of the difference between the classroom experience they are just completing and the reality of co-operative management. The two may very easily become unrelated. The intent of this course, however, is that trainees apply what they have learned in the classroom to the daily management of their co-operative societies.
- 2) Remind the trainees of their obligation to make an "action commitment" at the end of the course. For this, each must describe a special activity which he intends to implement as a result of the course or a specific problem at work which he expects to solve upon return home. (Some typical examples of "action commitments" are given under Item 5.)

Throughout the course, trainees should have been reminded of their responsibility to make this action commitment. This final day gives them the opportunity, in consultation with other trainees, to develop a plan or solution to the problem, using the course experience. They then present the solution to the whole group for criticism.

- 3) The time available should be divided into two periods - the consultancy period and the presentation period.

During the consultancy period the trainees should be divided into groups of three to four. The groups should not contain trainees

from the same co-operative and, ideally, should include trainees from different backgrounds. In this period, each trainee should be allowed about 30 minutes to present his problem and proposed solution to the other members of the group, who are expected to help develop a solution and a timetable for its implementation.

During the presentation period, each trainee should have at least ten minutes to present his problem and solution to the whole group, and to hear and react to at least a few of their comments. In this brief period the trainee must:

- describe the problem;
- describe the solution;
- describe how the solution will be "sold" to whoever is involved;
- state a specific date by which the plan will be completed.

Trainees in a position of authority in a co-operative may feel that it is unnecessary to "sell" their ideas to their subordinates or to committee members. Such trainees should be advised that subordinate staff will contribute more efficiently to the work of the co-operative if they understand and believe in what they are doing rather than doing it out of fear or simple obedience.

The actual timing of the consultancy and the presentation periods will depend on the number of participants in the course. In order to ensure sufficient time to each trainee, the normal session hours should be extended or time should be allowed on the previous day. The session is important - it provides an effective bridge between the course activities and the normal environment of the trainees. It also encourages the trainees to regard the completion of the course not as the end of training but as the beginning of personal improvement on the job.

- 4) Trainees should be encouraged to arrange to meet each other at work after the course for continued "group consultation". The instructor should also undertake to visit or otherwise contact each trainee around the promised date of completion of the action plan, in order to ascertain whether or not it has been implemented. It must be stressed that this is not in order to evaluate the trainees, but rather the training course itself.

If possible, a brief reunion should also be arranged, to take place after an appropriate interval. If this can be done, trainees should be asked to state in the last session exactly what they plan to have achieved by the date chosen for the reunion, so that they can then compare progress with stated intention. This is not only a useful evaluation device but, more importantly, a public commitment. The knowledge of the forthcoming reunion will be a powerful incentive to actual implementation.

- 5) Each action commitment will be unique to each trainee and his organisation, but four typical examples are given below.

Examples of Action Commitments

EXAMPLE A

Problem: The rate of leakage in my shop is too high.

Solution:

- a) I will explain the problem to all staff members, tell them the value of the goods which disappear in a month, the rate of leakage as a percentage of sales and the development of the leakage figure in recent years. I will explain the consequences for the economy of the co-operative so that everybody understands the seriousness of the problem.
- b) I will identify possible reasons for the leakage and areas of improvement:
- Are the goods properly checked when received?
 - Are all goods stored and displayed in a safe way? Is there any apparent sign of leakage on the floor?
 - Are there any signs of pests?
 - Are any goods too old, damaged or dirty?
 - Is fresh food ordered in right quantities and well taken care of to avoid wastage?
 - Are scales and weights clean and correctly adjusted, and correct weights given to customers?
 - Are all sales recorded and the cash monitored daily?

- Are price changes and goods used by the co-operative itself accounted for so that they do not show as leakage?
 - Are dishonest customers given opportunities to steal goods?
 - Is there proper control over what the staff members buy themselves and what they carry when leaving the shop?
 - Are all goods safe when the shop is closed? Is the shop properly locked and the key kept safely?
- c) I will discuss actions to be taken to reduce leakage with all staff members in order to motivate them to participate.
- d) All staff will carry out the activities agreed upon. I will supervise and handle any problem that might occur.
- e) I will arrange monthly stock-takings in order to follow up the result of the activities and the development of the leakage-rate.
- f) The committee-members will be briefed, participate in the stock-takings and receive reports on the development.
- g) Time-table: The survey and preparations will start next week and be completed so that an anti-leakage programme can be implemented as from next month.

EXAMPLE B

Problem: We have no proper system of stock control in our shop and the low margins we achieve indicate that we may have a high leakage.

Solution:

Stock control records at selling prices and regular stock-takings should be introduced. I will:

- identify all goods transactions and any changes in the selling value of the goods and find out how they are recorded, if possible I will extract all information monthly from the present records;
- decide upon any needed adjustments or complements to the recording system;

- explain the stock control system to the committee and to the staff, making sure they understand its importance;
- arrange a stock-taking to ascertain the actual value of the stock when the stock control system is initiated;
- make sure that all stock movements are recorded;
- decide the time for the next stock-taking and carry it out;
- prepare the stock records and, together with the secretary, calculate the leakage during the period;
- account for the leakage to get a correct actual opening stock value for the coming period so that the leakage can be measured regularly.

Time-table: January - Information, decisions and preparations.
February - Recordings are started, stock-takings monthly onwards.

EXAMPLE C

Problem: I do not know if any cash is disappearing from the shop, because we have no system for daily cash control.

Solution: Together with a co-operative officer and the secretary of the co-operative, I will design and introduce a cash control system according to the following plan:

- a) In January we will design and print necessary forms for the cash control: receipts and cash sales lists for recording of the sales, daily cash reports for the daily control.
- b) In January we will also explain the need and purpose of cash control for all staff, stressing the importance of recording all sales.
- c) On 1 February we will appoint certain staff members to handle the cash, explain their personal responsibility, where to keep their cash, and the daily accounting procedures. We will see to it that each staff member who is to handle cash has a cash-box or cash drawer which can be locked and that any duplicate key is kept safely.

I will prepare a check-list of actions in case of cash shortage or cash over and inform the staff about this.

- d) In the general meeting in February we will educate the members as to the need for cash control, so that they, too, understand the importance of recording all sales.
- e) On 15 February we will start using the daily cash control system.

EXAMPLE D

Problem: Our stock range has remained almost the same for quite some time. Members complain that we do not stock more goods.

Solution:

- a) Next week I will involve all staff members in identifying "slow-moving items". We will prepare a list of goods which have been in the shop for months without many customers asking for them.
- b) I will find out why each item on the list is not much in demand and suggest actions to be taken: clearance sale, price adjustment, sales promotions, new display, drop from the stock range, etc.
- c) I will also prepare a list of goods which are much in demand but missing in the present stock range and then make a priority list of new items to be included in the stock range. I will calculate the need for capital this requires.
- d) I will present the suggestions to the committee and ask for its approval in the meeting in February.
- e) I will continue developing the stock range in this way. Twice a year I will go through the assortment and improve it.

ORDER – training material



To ILO Publications
International Labour Office
CH 1211 GENEVA 22, Switzerland.

Material for staff and management training in CONSUMER CO-OPERATIVES

Please, send us the titles indicated below and invoice us accordingly.

<u>Quantity</u>		<u>ISBN</u>	<u>US\$</u>
	SELF-STUDY BOOKLETS - A series of "Learning Elements" for staff, managers and committee-members:		
_____	BASIC ECONOMICS OF A CONSUMER CO-OPERATIVE	92-2-102224-2	2.85
_____	PLANNING AND CONTROLLING THE BUSINESS	92-2-102222-6	--
_____	CASH AND STOCK MANAGEMENT	92-2-105046-7	--
_____	PRICING	92-2-103028-8	--
_____	BUILDINGS AND EQUIPMENT FOR SMALL SHOPS	92-2-102177-7	--
_____	BASIC RULES FOR THE DISPLAY OF GOODS	92-2-102067-3	--
_____	THE DISPLAY OF GOODS IN SELF-SERVICE SHOPS	92-2-102081-9	--
_____	EASY LETTERING FOR SIGNS AND POSTERS	92-2-103330-9	--
_____	THE STOCK RANGE	92-2-103089-X	--
_____	ORDERING GOODS	92-2-103088-1	--
_____	RECEIPT OF GOODS	92-2-102437-7	--
_____	SHOP HYGIENE	92-2-103692-8	--
_____	FOOD SPOILAGE AND PRESERVATION	92-2-103693-6	--
_____	WEIGHING AND PREPACKING	92-2-102360-5	--
_____	PRICE-MARKING	92-2-102632-9	--
_____	SALESMANSHIP	92-2-102223-4	--
_____	SHOPLIFTING	92-2-102481-4	--
_____	HANDLING OF CASH	92-2-102361-3	--
_____	CASH CONTROL WITHOUT A CASH REGISTER	92-2-102435-0	--
_____	CASH CONTROL USING A CASH REGISTER	92-1-102436-9	--
_____	LEAKAGE	92-2-102049-5	--
_____	STOCK CONTROL RECORDS	92-2-102774-0	--
_____	STOCK-TAKING	92-2-102225-0	--
_____	WORK ORGANISATION AND STAFF MANAGEMENT	92-2-103268-X	--
_____	TRAINER'S NOTES - A booklet comprising notes for the instructor on the use of the above "Learning Elements"	92-2-105151-X	--
_____	RETAIL MANAGEMENT - A complete 2-week course presented in a "Trainer's Manual" (ringbinder). For each session there is a session-guide for the trainer and a copy of each case-study and other handouts for the trainees.	92-2-105490-X	19.95

Quantity discount: 10 copies -10%, 50 copies -25%. (Prices subject to change without notice.)

Name and address:

Signed:

Date: