



Why is Store Layout Important?

Store layout is the arrangement of store fixtures, equipment, and merchandise. It has a major influence on sales and is important to the image and appearance of the store. The arrangement of merchandise is a primary consideration when determining store layout. Merchandise must be positioned so that it can be easily seen and examined by customers before they buy it. Another important consideration is the visible and convenient placement of cash registers.

Measuring Productivity

Many retailers use sales per square foot as a measure of store productivity. Store layout has a significant impact on sales per square foot. Grocery stores and similar businesses that display merchandise on long rows of shelves often measure their productivity in terms of sales per linear foot. Regardless of the type of measurement, the goal is to make the selling area as productive as possible.

Creating a Store Layout

A store layout should be created with two objectives in mind:

- Encourage customers to move around the store. Customers who move around a store tend to view more merchandise, which leads

Main Idea

This unit deals with the importance of store layout. We will learn about the factors of store layout that enhance merchandise sales. We will study the types of store layouts and considerations for merchandise placement. Lastly, we will review mathematics used in determining store layout.

After completing this lesson you will be able to:

- Describe the characteristics of good store layout and its impact on sales
- Give real-world examples of the four main types of store layouts – grid, loop, free flow, and spine
- Explain the importance of a well designed store entrance
- Compute sales per square foot of space and linear foot of shelving
- Calculate short- and long-term payments on leased vs. purchased store fixtures
- Evaluate the pros and cons of new equipment, and impact on sales, by analyzing financial statements
- Plan an effective store layout to meet sales goals

Key Terms

- Store Layout
- Grid Layout
- Loop Layout
- Free Flow Layout
- Spine Layout
- Fixtures

to greater sales. Retailers need to balance the flow of customer traffic around the store with their ease of locating merchandise. If customers move around the store without locating the merchandise they seek, they may become frustrated and leave without making a purchase.

- Provide a space that is sufficient for customers to shop in and that is useful for maximum productivity. A selling space that is overcrowded with fixtures and racks can become confusing and overwhelming to customers.

Types of Store Layouts

There are four main types of floor layouts in use in most stores. They are the grid, loop, free flow, and spine pattern layouts. Each layout pattern meets specific merchandising needs.

Grid

The grid layout is characterized by long rows of shelving with aisles between the rows. The shelves are designed to hold a large amount of merchandise. More merchandise can be displayed on the sales floor with the grid layout than with other layout patterns. The grid layout makes it easy for customers to find specific merchandise. This layout is typically used in grocery stores and drugstores.

Loop

The loop layout is designed to lead customers from the front of the store, through the store, and back to the front—or in a loop around the store. The loop layout provides the best opportunity for customers to see the most merchandise. Many department stores use the loop layout as a way of encouraging customers to see several departments during a visit.

Free Flow

The free flow layout features merchandise on fixtures that are arranged in asymmetrical or free flowing patterns on the sales floor. This is a casual layout that encourages customers to browse as they travel through the store. The free flow layout is visually attractive, but can use a great deal of selling space. Many small specialty stores and certain departments of department stores use this layout.

Spine

The spine layout features a center aisle that extends from the front of the store to the back. Merchandise fixtures are arranged on either side of the spine using either the free flow or grid layout. Merchandise is also on both sides of the center aisle. Some drugstores use this layout, using the center aisle or spine to lead customers to the pharmacy at the back of the store.

Fixtures – Purchase or Lease?

Once the layout of the store has been determined it is time to decide the types and quantities of fixtures needed to hold and showcase merchandise. Fixtures are permanent or transportable store furnishings that are used to hold and display merchandise. The types of fixtures depend on the types of merchandise the store carries. Many fixture companies offer purchase,

lease, or lease-to-buy options to retailers. Some vendors even offer used fixtures for sale. A storeowner should consider the options carefully against the financials and to determine which option will best help achieve the store's goals.

Purchasing store fixtures means that they become the property of the store. It also means a capital investment will be made for the purchase. The purchase cost of fixtures and displays can be depreciated over several years, providing a tax deduction. Once fixtures and displays are purchased, they lose much of their value, just the way a brand new car does once you drive it off the lot.

Leasing store fixtures means signing a lease agreement that spells out the terms of the lease arrangement. Lease terms vary greatly. Study the terms of the lease to be certain that the lease is a good one for the business. It is a good idea to ask a lawyer to review any lease before you sign it. Lease payments can be deducted as operating expenses for tax purposes. Often the lease tax deduction is larger than depreciation deduction from buying. It is important to compare the cost of leasing with the cost of financing a fixture purchase to determine which is best for your situation.

The Importance of a Good Entrance

The store entrance provides the first view customers have of a store. The entrance is an opportunity to set the tone and to provide the customer with a good first impression of the store. A well-planned, eye-catching entrance will encourage customers to enter your store.

Summary

In this unit we have studied the importance of store layout and the four types of store layout. We discussed leasing or purchasing store fixtures and displays. We then learned about the importance of a good store entrance. Lastly, we reviewed some mathematical formulas related to store layout.

Key Math Concepts

COMPUTE SALES PER SQUARE FOOT OF SELLING SPACE

Retailers often use sales per square foot of selling space as a measure of the productivity of their selling space. To compute sales per square foot of selling space, use this formula:

$$\text{Total Net Sales} \div \text{Total Square Feet of Selling Space} = \text{Sales per Square Foot of Selling Space}$$

COMPUTE SALES PER LINEAR FOOT OF SHELVING

Another way to measure selling space productivity is in sales per linear foot. This measure is typically used for merchandise that is stocked on shelves. To compute sales per linear foot of shelving, use this formula:

$$\text{Total Net Sales} \div \text{Total Linear Feet of Shelving} = \text{Sales per Linear Foot}$$

Key Terms

Store Layout

The arrangement of store fixtures, equipment, and merchandise.

Grid Layout

A type of store layout that is characterized by long rows of shelving with aisles between the rows.

Loop Layout

A type of store layout that is designed to lead customers from the front of the store, through the store, and back to the front or in a loop around the store.

Free Flow Layout

A type of store layout that features merchandise on fixtures, arranged in asymmetrical or free flowing patterns on the sales floor.

Spine Layout

A type of store layout that features a center aisle that extends from the front of the store to the back.

Fixtures

Permanent or transportable store furnishings that are used to hold and display merchandise.

Advanced Merchandising

1. Last month, sales in the following categories were: Promotional items (\$1401 with returns of \$214 and discounts of \$159), Staple items (\$2306 with returns of \$178), All other items (\$2298 with returns of \$56). The total square footage of the selling space is 5,000 square feet. Compute the sales per square foot of selling space.

2. Last year, total sales for your grocery store were \$10,342 with returns of \$214 and discounts of \$599. The linear feet of shelving in the store totals 575 linear feet. What are the sales per linear foot for the store?

3. You must make a decision about whether to lease or purchase fixtures for your new store. A vendor has made you the following offers.

- Total cost of reconditioned fixtures: \$6,500
- Total cost of new fixtures: \$12,000
- Monthly cost of leasing fixtures: \$200

You do not have any capital to invest in fixtures but your bank will give you a five-year loan at a 9% annual interest rate. What makes the most economic sense over five years and why?

4. Your store has 350 linear feet of shelving and 1,500 square feet of selling space that holds merchandise on racks and other freestanding fixtures. Net sales for the last quarter for each area are as follows.

Month	Total Net Sales for 350 Linear Feet	Total Net Sales for 1500 Square Feet
January	\$4,200	\$3,360
February	3,300	2,930
March	3,700	3,685

Compute the total net sales per linear foot and total net sales per square foot for each month and the average for each area for the quarter. Round your answers to the nearest dollar.

Advanced Merchandising

1. You are planning the layout of a new sporting goods store. List the major components to consider in your planning and discuss factors you should think about regarding each component. Build your answer by expanding on the basic information given in this unit.
2. List the four types of store layout and their characteristics. Then give examples of each type found in local stores.
3. Discuss reasons why the entrance to a store is such an important aspect of store layout. Describe two store entrances that you think are good examples and explain why.
4. Explain the major considerations regarding purchasing or leasing fixtures for a store.

Advanced Merchandising

GOAL: Your goal is to design a store that generates the maximum profits. You have complete control of what type of fixtures you lease, where you locate them, and how you place goods on them.

YOUR SITUATION: In this lesson, you control only Merchandising. All other Actions are controlled for you. Note: Seasonality is turned off; all products sell evenly throughout the year.

Part A

1. Run the **Merchandising, Products, Run To,** and **Financials** sections of the **Tutorial**.
2. Open the **Advanced Merchandising** lesson.
3. Open the **Products** report. Uncheck **Total** and check the boxes next to **Generic Cola, Primo Cola,** and **Bolt Cola**. Click **Table** under **Show As**.

QUESTION 1: Which is your worst selling cola? What are the weekly sales of that cola?

4. You've been visited by a slushy rep. He says you'll increase sales and profits by adding a slushy machine. You agree to give it a 3 week trial.
5. Replace the fixture containing your worst selling soda with a slushy machine. Using **Options->Run To**, run the simulation to February 5th.
6. Use the **Products** and **Financials** reports to fill in **Worksheet 1**, use the date from the most recent week. To find the COGS for slushies open the **Products** report, click **Table** under **Show As**, uncheck **Total** and check **Slushies**, then click **COGS: Actual Sales** under **Data**. To find the cost of the slushy machine open the **Financials** report, click **More Detail**, and look under **Equipment Costs/Fixtures**.

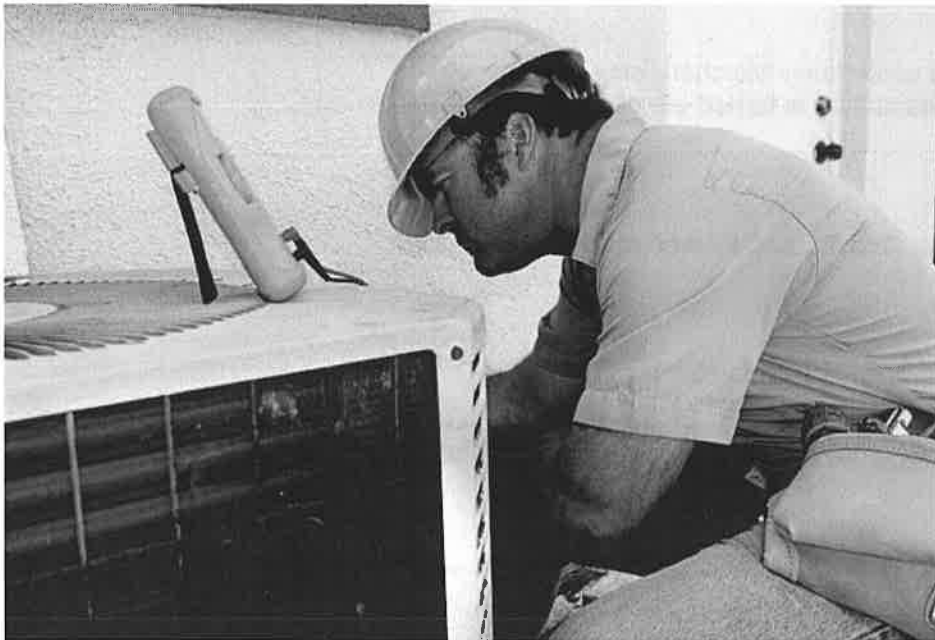
QUESTION 2: Was the slushy machine more profitable than the soda that it replaced? By how much? Should you keep the slushy machine?

Part B

1. Continuing with your simulation, try to layout your store to make a weekly profit of \$8,000 or more. The customer base of your store is mostly students, with a few business people and almost no seniors. Consider customer demand, cost of fixtures, and buying patterns in your decision.
2. Print out the store layout that achieves your highest weekly profit.

WORKSHEET 1

Slushy Sales	Slushy COGS: Actual Sales	Slushy Gross Margin	Cost of Slushy Machine	Slushy Contribution to Profit in Dollars



What is a Business Risk?

There are risks associated with most activities that people engage in, and running a business is no exception. A business risk involves circumstances that can threaten financial loss or failure. It is important to recognize potential risks and to handle them in a way that has the least negative impact on the business.

Risk Management

Business risks cannot be eliminated entirely, but there are actions retailers can take to help decrease risks to a business. Risk management is the process of dealing with risks that minimizes financial loss for a business.

Types of Business Risks

Most business risks fall into one of three categories: economic risks, human risks, and natural risks.

Economic Risks

Economic risks are caused by changes in the business climate. One economic risk can be a downtrend in the national economy. This can make it more difficult to obtain loans. Economic downtrends can also cause customers to cut back on their spending. Retailers must be watchful of changes in customer buying patterns. During these times it may become necessary to fine-tune inventory levels and trim expenses.

Main Idea

The material in this unit deals with the subject of business risks and how to manage them. We will study the types of risks a business faces and review some of the ways a retailer can handle these risks. We will then review some mathematics associated with business risks.

After completing this lesson you will be able to:

- Give examples of the three main types of business risk - economic, human, and natural
- Describe the elements of an effective risk prevention plan
- Explain the different types of insurance and calculate the cost of premiums
- Compute merchandise losses based on book value, inventory value, and sales over time
- Weigh each of the following in terms of financial impact: on-demand repair calls, extended product warranties, and service contracts

Key Terms

- Business Risk
- Risk Management
- Economic Risks
- Human Risks
- Natural Risks
- Insurance
- Property Insurance
- Liability Insurance
- Warranty