CONTENTS

SYLLABUS

M-241 **Retail Management**

UNIT I

Overview of Retailing Environment and Management: Retailing, Definition and Concept, Functions of Retailing, Driving Forces for Retailing, Building and Sustaining Relationships, Strategic Planning, Structural Change, Type of Retail Outlets, Market Structure, Retail Planning, Development and Control.

The Customer and Retail Business: Knowing your Customers, Focusing on the Consumer, Mapping out Society, Learning, Attitude, Motivation and Perception.

UNIT II

Situational Analysis: Retail Institutions by Ownership. Retail Institutions by Store-based Strategy-Mix, Web, Nonstore-based and other Forms of Traditional Retailing. Targeting Customers and Gathering Information. Communicating with Customers. Promotional Strategies used in retailing.

Choosing a Store Location: Trading Area Analysis, Site Selection,

Store Design and Layout, The Store and its Image, The External Store, Internal Store, Display, Visual Merchandising and Atmospherics.

UNIT III

Managing Retail Business: Retail Organization and HRM, Retail Organization and Operations Management, Financial Dimensions, Managing Retail Services. Service Characteristics, Branding, Perceptions of Service Quality.

UNIT IV

Delivering the Product: Retail Information Systems, Merchandise Management Retail Pricing, Development and Implementing Plans, People in Retailing.

International Retailing: Internationalization and Globalization, Shopping at World Stores, Going International, the Internationalization Process, Culture, Business and International Management.

UNIT 1 INTRODUCTION TO RETAILING

NOTES

★ STRUCTURE ★

NOTES

1.0 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- describe the definition and concept of retailing.
- know about the building and sustaining relationship.
- what is the strategic planning?
- explain the market structure of retail management.
- discuss about the motivation and perception.

1.1 INTRODUCTION

India has often been called a nation of shopkeepers. Presumably the reason for this is; that, a large number of retail enterprises exist in India. In 2004, there were 12 million such units of which 98% are small family businesses, utilizing only household labour. Even among retail enterprises, which employ hired workers, a majority of them use less than three workers.

Retailing is the combination of activities involved in selling or renting consumer goods and services directly to ultimate consumers for their personal or household use. In addition to selling, retailing includes such diverse activities as, buying, advertising, data processing and maintaining inventory.

While sales people regularly call on institutional customers, to initiate and conclude transactions, most end users or final customers, patronize stores. This makes store location, product assortment, timings, store fixtures, sales personnel, delivery and other factors, very critical in drawing customers to the store.

Final customers make many unplanned purchases. In contrast those who buy for resale or use in manufacturing are more systematic in their purchasing. Therefore, retailers need to place impulse items in high traffic locations, organise, store layout, trains sales people in suggestion, and place related items next to each other, to stimulate purchase.

1.2 WHAT DOES THE RETAILING INDUSTRY INCLUDE?

- Department Stores
- Discount Stores
- Clothing Stores
- Speciality retailers
- Convenience Stores

NOTES

- Grocery Stores
- Drug Stores
- Home furnishing retailers
- Auto Retailers
- Direct Sales Catalog and mail order companies
- Some e-commerce businesses.

1.3 DEFINITION AND CONCEPT OF RETAILING

Organised retailing in India was estimated at ₹18,000 crores in 2002–2003 and has grown at about 40% over the last 3 years. Retailing has a tremendous impact on the economy. It involves high annual sales and employment. As a major source of employment retailing offers a wide range of career opportunities including; store management, merchandising and owning a retail business.

Consumers benefit from retailing in that, retailers perform marketing functions that makes it possible for customers to have access to a broad variety of products and services. Retailing also helps to create place, time and possession utilities. A retailer's service also helps to enhance a product's image.

In general, retailers perform four distinct function as, shown in Figure 1.1 below:

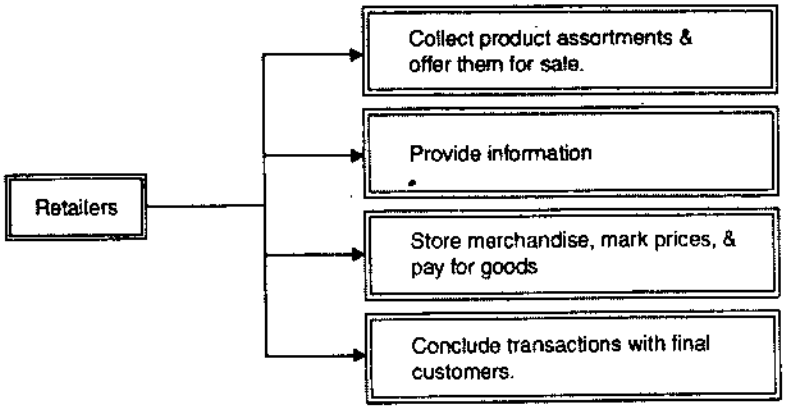


Fig. 1.1

Retailers participate in the sorting process by collecting an assortment of goods and services from a wide variety of suppliers and offering them for sale. The width and depth of assortment depend upon the individual retailer's strategy.

NOTES

They provide information to consumers through advertising, displays and signs and sales personnel. Marketing research support is given to other channels, members. They store merchandise, mark prices on it, place items on the selling floor and otherwise handle products; usually they pay suppliers for items before selling them to final customers. They complete transactions by using appropriate locations, and timings, credit policies, and other services *e.g.*, delivery. Retailing in a way, is the final stage in marketing channels for consumer products. Retailers provide the vital link between producers and ultimate consumers.

1.4 RETAIL STRATEGY AND STRUCTURE

Successful retail operations depend largely on two main dimensions: margin and turnover. How far a retail enterprise can reach in margin and turnover depends essentially on the type of business (product lines) and the style and scale of the operations. In addition the turnover, also depends upon the professional competence of the enterprise.

In a given business two retail companies may choose two different margin levels, and yet both may be successful, provided the strategy and style of management are appropriate.

Margin Turnover Model

Ronald R. Gistl "Suggested a conceptual framework, using margin and turnover, for understanding the retail structure and evolving a retail strategy." Margin is defined as the percentage mark tip at which the inventory in the store is sold and turnover is the number of times the average inventory is sold in a year. Figure 1.2 is a diagrammatic representation of the frame work and can be applied to almost any type of retail business.

Depending upon the combination of the two parameters, a retail business will fall into one of the four quadrants. For instance L-L signifies a position which is low on both margin and turnover; whereas, H-L indicates high margin and low turnover.

NOTES

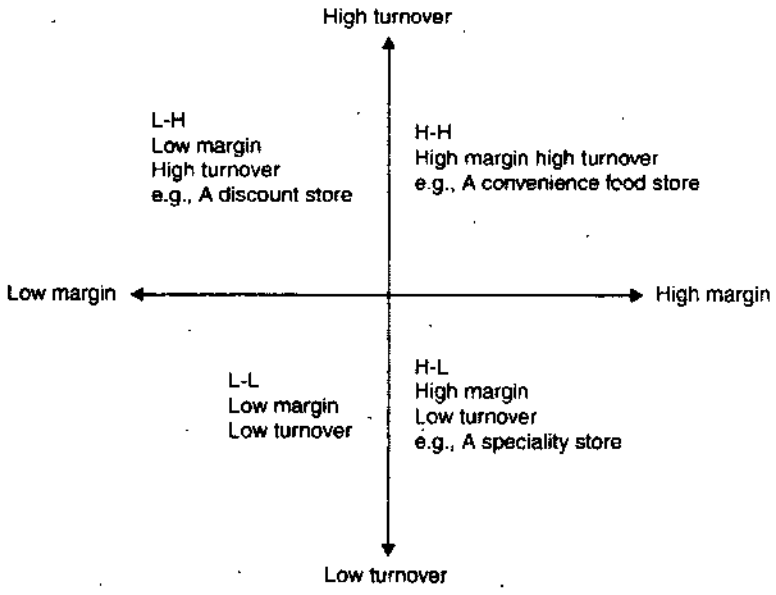


Fig. 1.2

Low Margin High Turnover Stores

Such an operation assumes that low price is the most significant determinant of customer patronage. The stores in this category price their products below the market level. Marketing communication focuses mainly on price. They provide very few services; if any, and they normally entail an extra charge whenever they do. The merchandise in these stores are generally pre-sold or self sold. This means that the customers buy the product, rather than the store selling them.

These stores are typically located in isolated locations and usually stock a wide range of fast moving goods in several merchandise lines. The inventory consists of well known brands for which a consumer pull is created by the manufacturer through national advertising. Local promotion focuses on low price. Wal mart in the United States is an example and Pantaloon Chain or Subhiksha are Indian examples of such stores.

High Margin Low Turnover

This operation is based on the premise that distinctive merchandise, service and sales approach are the most important factors for attracting customers. Stores in this category price their products higher than those in the market, but not necessarily higher than those in similar outlets. The focus in marketing communication is on product quality and uniqueness.

Merchandise is primarily sold in store and not pre-sold. These stores provide a large number of services and sell select, categories of products. They do not stock national brands which are nationally advertised. Typically, a store in this category is located in a down town area or a major shopping center. Sales depends largely on salesmanship and image of the outlet.

NOTES

High Margin/High Turnover Stores

These stores generally stock a narrow line of products with turnover of reasonably high frequency. They could be situated in a non commercial area but not too far from a major thoroughfare. Their locational advantage allows them to charge a higher price. High over head costs and, low volumes also necessitate a higher price.

Low Margin-Low Turnover Stores

Retail enterprises in this category are pushed to maintain low margins because of price wars. Compounding this problem is the low volume of sales, which is probably a result of poor management, unsuitable location etc., such businesses, normally get wiped out over a period of time.

1.5 BUILDING AND SUSTAINING RELATIONSHIP

Regardless of the particular type of retailer (such as a supermarket or a department store), retailers can be categorized by (*a*) Ownership, (*b*) Store strategy mix, and (*c*) Non store operations. Figure 1.3 illustrates this concept.

Form of Ownership

A retail business like any other type of business, can be owned by a sole proprietor, partners or a corporation. A majority of retail business in India are sole proprietorships and partnerships.

Independent Retailer

Generally operates one outlet and offers personalized service, a convenient location and close customer contact. Roughly 98% of all the retail businesses in India, are managed and run by independents, including barber shops, drycleaners, furniture stores, bookshops, LPG Gas Agencies and neighbourhood stores. This is due to the fact that entry into retailing is easy and it requires low investment and little technical knowledge. This obviously results in a high degree of competition. Most independent retailers fail because of the ease of entry, poor management skills and inadequate resources.

Retail Chain

It involves common ownership of multiple units. In such units, the purchasing and decision making are centralized. Chains often rely on, specialization, standardization and elaborate control- systems. Consequently chains are able to serve a large dispersed target market and maintain a well known company name. Chain stores have been successful, mainly because they have the opportunity to take advantage of "economies of scale" in buying and selling goods.

They can maintain their prices, thus increasing their margins, or they can cut prices and attract greater sales volume. Unlike smaller, independent retailers with lesser financial means, they can also take advantage of such tools as computers and information technology. Examples of retail chains in India are Shoppers stop; West side and IOC, convenience stores at select petrol filling stations.

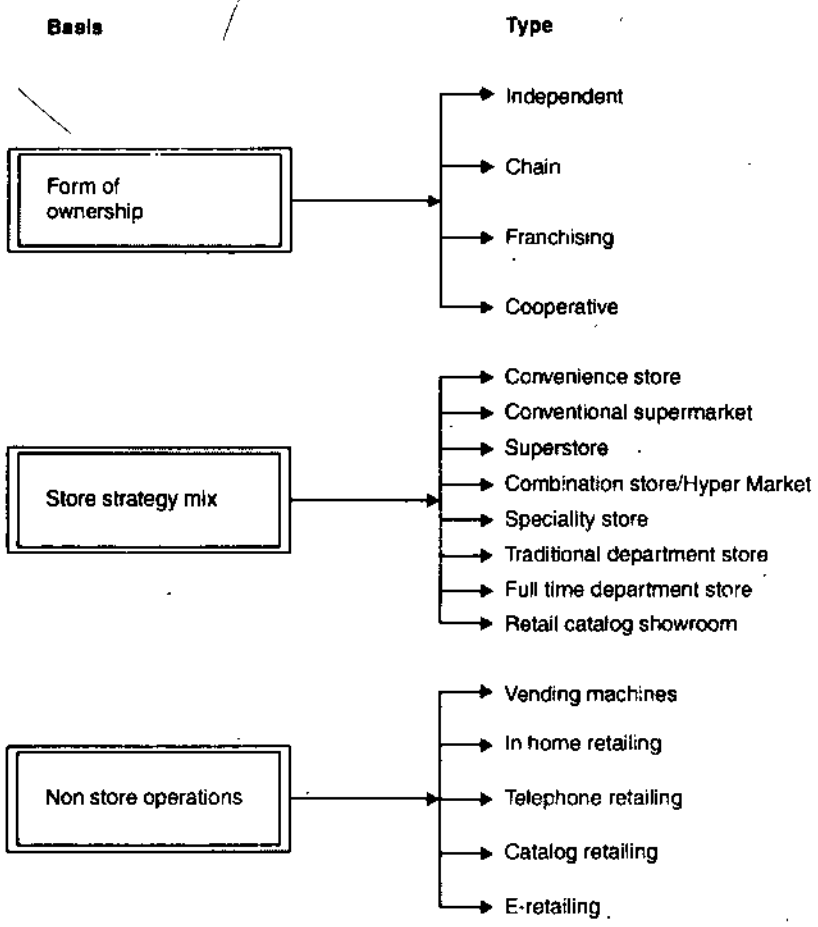


Fig. 1.3

Retail Franchising

Is a contractual arrangement between a "franchiser" (which may be a manufacturer, wholesaler, or a service sponsor) and a "**franchisee**" or franchisees, which allows the latter to conduct a certain form of business under an established name and according to a specific set of rules. The franchise agreement gives the franchiser much discretion in controlling the operations of small retailers. In exchange for fees, royalties and a share of the profits, the franchiser offers assistance and very often supplies as well. Classic examples of franchising are; McDonalds, PizzaHut and Nirulas.

NOTES

Cooperatives

A retail cooperative is a group of independent retailers, that have combined their financial resources and their expertise in order to effectively control their wholesaling needs. They share purchases, storage, shopping facilities, advertising planning and other functions. The individual retailers retain their independence, but agree on broad common policies. Amul is a typical example of a cooperative in India.

1.6 TYPES OF RETAIL OUTLETS

Retailers can be classified by retail store strategy mix, which is an integrated combination of hours, location, assortment, service, advertising, and prices etc. The various categories are:

- **Convienence Store:** Is generally a well situated, food oriented store with long operating house and a limited number of items.Consumers use a convenience store; for fill in items such as bread, milk, eggs, chocolates and candy etc.
- **Super Markets:** Is a diversified store which sells a broad range of food and non food items. A supermarket typically carries small house hold appliances, some apparel items, bakery, film developing, jams, pickles, books, audio/video CD's etc. The Govt. run Super bazaar, and Kendriya Bhandar in Delhi are good examples of a super market. Similarly in Mumbai, we have Apna Bazar and Sahakari Bhandar.
- **Department Stores:** A department store usually sells a general line of apparel for the family, household linens, home furnishings and appliances. Large format apparel department stores include Pantaloon, Ebony and Pyramid. Others in this category are: Shoppers Stop and Westside.
- **Speciality Store:** Concentrates on the sale of a single line of products or services, such as Audio equipment, Jewellery, Beauty and Health Care, etc. Consumers are not confronted with racks of unrelated merchandise. Successful speciality stores in India include, Music World for audio needs, Tanishq for jewellery and McDonalds, Pizza Hut and Nirula's for food services.
- **Hyper Markets:** Is a special kind of combination store which integrates an economy super market with a discount department store. A hyper market generally has an ambience which attracts the family as whole. Pantaloon Retail India Ltd. (PRIL) through its hypermarket "Big Bazar", offers products at prices which are 25%–30% lower than the market price.

Non Store Retailing

NOTES

In non store retailing, customers do not go to a store to buy. This type of retailing is growing very fast. Among the reasons are; the ability to buy merchandise not available in local stores, the increasing number of women workers, and the presence of unskilled retail sales persons who can not provide information to help shoppers make buying decisions. The major types of non store retailing are:

1. **In home retailing:** Where, a sales transaction takes place in a home setting - including door-door selling. It gives the sales person an opportunity to demonstrate products in a very personal manner. He/She has the prospect's attention and there are fewer distractions as compared to a store setting. Examples of in home retailing include, Eureka Forbes vaccum cleaners and water filters.
2. **Telesales/telephone retailing:** This involves contact between the prospect and the retailer over the phone, for the purpose of making a sale or purchase. A large number of mobile phone service providers use this method. Other examples are private insurance companies, and credit companies etc.
3. **Catalog retailing:** This is a type of non store retailing in which the retailers offers the merchandise in a catalogue, which includes ordering instructions and customer orders by mail. The basic attraction for shoppers is convenience. The advantages to the retailers include lover operating costs, lower rents, smaller sales staff and absence of shop lifting. This trend is catching up fast in India. Burlington's catalogue shopping was quite popular in recent times. Some multi level marketing companies like Oriflame also resort to catalogue retailing.
4. **Direct response retailing:** Here the marketers advertise these products/ services in magazines, newspapers, radio and/or television offering an address or telephone number so that consumers can write or call to place an order. It is also sometimes referred to as "Direct response advertising." The availability of credit cards and toll free numbers stimulate direct response by telephone. The goal is to induce the customer to make an immediate and direct response to the advertisement to "order now." *Telebrands is a classic example of direct response retailing. Times shopping* India is another example.
5. **Automatic vending:** Although in a very nascent stage in India, is the ultimate in non personal, non store retailing. Products are sold directly to customers/buyers from machines. These machines dispense products which enable customers to buy after closing hours. ATM's dispensing cash at odd hours represent this form of non store retailing. Apart from all the

NOTES

multinational banks, a large number of Indian banks also provide ATM services, countrywide.

6. **Electronic retailing/e-tailing:** Is a retail format in which retailers communicate with customers and offer products and services for sale, over the internet. The rapid diffusion of internet access and usage, and the perceived low cost of entry has stimulated the creation of thousands of entrepreneurial electronic retailing ventures during the last 10 years or so. Amazon.com, E-bay and Bazee.com HDFCSec.com are some of the many e-tailers operating today.

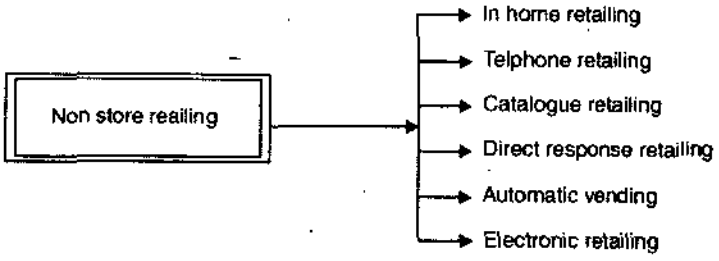


Fig 1.4

1.7 DRIVING FORCES FOR RETAILING

Is a hypothesis that attempts to explain the emergence of new retailing institutions and their eventual decline and replacement by newer retailing institutions? Like products retailing institutions also have a life cycle.

According to this theory new retailers enter the market as, low margin, low price, low status institutions. The cycle begins with retailers attracting customers by offering low price and low service. Over a period of time these retailers want to expand their markets and begin to stock more merchandise, provide more services, and open more convenient locations. This trading up process. increases the retailers costs and prices, creating opportunities for new low price retailers to enter the market.

The evolution of the department store illustrates the "wheel of retailing" theory. In its entry phase, the department store was a low cost-low service venture. With time it moved up into the trading-up phase. It upgraded its facilities, stock selection, advertising and service. The same department store then moves into the vulnerability phase, because it becomes vulnerable to low cost/low service formats, such as full line discount stores and category specialists. Figure 1.5 illustrates this theory. While the wheel hypothesis has a great deal of intuitive appeal and has been borne out in general by many studies of retail development, it only reflects a pattern. It is not a sure indicator of every change, nor was it ever intended to describe the development of every individual retailer.

NOTES

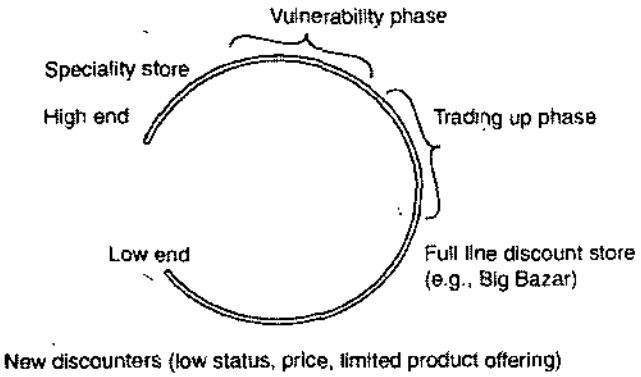


Fig 1.5

1.8 STRATEGIC PLANNING

There are many factors for retailers to consider while developing and implementing their marketing plans. Among the major retailing decisions are these related to (*a*) Target markets (*b*) Merchandise management (*c*) Store location (*d*) Store image (*e*) Store personnel (*f*) Store design (*g*) Promotion, and (*h*) Credit and collections. This is shown diagrammatically in Figure 1.6.

1. **Target Markets:** Although retailers normally aim at the mass market, a growing number are engaging in marketing research and market segmentation, because they are finding it increasingly difficult to satisfy everyone. Through a careful definition of target markets, retailers can use their resources and capabilities to position themselves more effectively and achieve differential advantage. The tremendous growth in number of speciality stores in recent years is largely due to their ability to define precisely the type of customers, they want to serve.
2. **Merchandise Management:** The objective here is to identify the merchandise that customers want, and make it available at the right price, in the right place at the right time. Merchandise Management includes (*i*) merchandise planning (*ii*) merchandise purchase, and (*iii*) merchandise control. Merchandise planning deals with decisions relating to the breadth and depth of the mix, needed to satisfy target customers to achieve the retailers return on investment. This involves sales forecasting, inventory requirements, decisions regarding gross margins and mark ups etc. Merchandise buying involves decisions relating to centralized or decentralized buying, merchandise resources and negotiation with suppliers. Merchandise Control: deals with maintaining the proper level of inventory and protecting it against shrinkage (theft, pilferage etc.).

NOTES

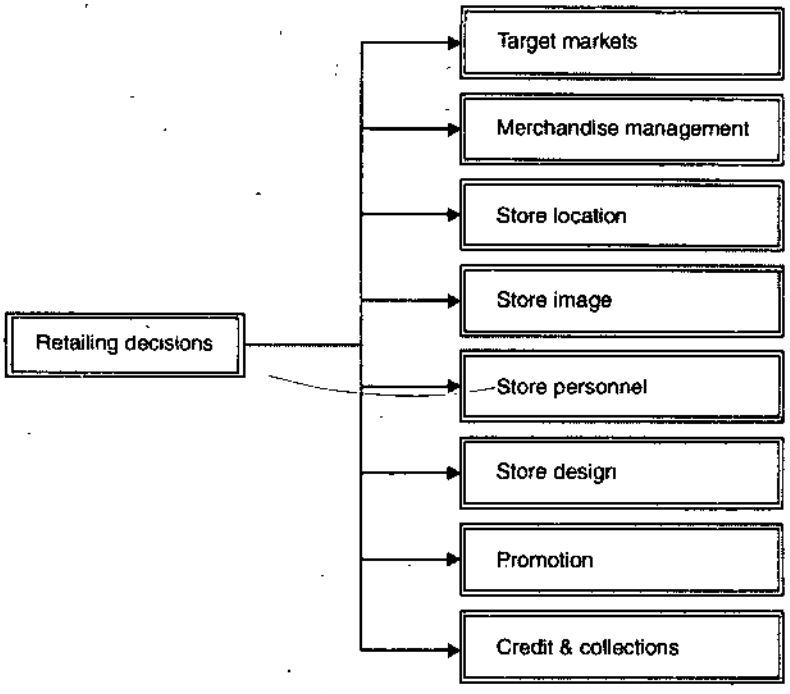


Fig. 1.6

3. **Store Location:** Location is critical to the success of a retail store. A store's trading-area is the area surrounding the store from which the outlet draws a majority of its customers. The extent of this area depends upon the merchandise sold. For example some people might be willing to travel a longer distance to shop at a speciality store because of the unique and prestigious merchandise offered. Having decided on the trading area a specific site must then be selected. Factors affecting the site include, traffic patterns, accessability, competitors' location, availability and cost and population shifts within the area.
4. **Store Image:** A store image is the mental picture, or personality of the store, a retailer likes to project to customers. Image is affected by advertising, services; store layout, personnel, as well as the quality, depth and breadth of merchandise. Customers tend to shop in stores that fit their images of themselves.
5. **Store Personnel:** Sales personnel at a retail store can help build customer loyalty and store image. A major complaint in many lanes of retailing, is the poor attitude of a salesperson. There is a growing trend now, to provide training to these sales clerks to convert them from order takers to effective sales associates.
6. **Store Design:** A store's exterior and interior design affect its image and profit potential. The exterior should be attractive and inviting and should blend with the store's general surroundings. The term "Atmospherics" is used to refer to the retailer's effort at creating the right ambience. Merchandise display is equally important. An effective layout guides the customer though the various sections in the store and facilitates purchase.

NOTES

7. **Promotion:** Retail promotion includes all communication from retailers to consumers and between sales people and customers. The objective is to build the stores image, promote customer traffic, and sell specific products. It includes, both, personal and non personal promotion. Personal communication is personal selling—the face to face interaction between the buyer and the seller. Department stores and speciality stores, emphasize this form of promotion. Non personal promotion is advertising. The media used are TV, Radio, Newspapers, Outdoor displays and direct mail, other forms of promotion include, displays, special sales, give aways and contests etc.
8. **Credits and Collections:** Retailers are generally wary of providing credit, because of additional costs-financing accounts receivables, processing forms and bad debts etc. But many customers prefer some form of credit while purchasing. This explains the popularity of different types of credit cards and debit cards.

1.9 STRUCTURAL CHANGES

In recent years the nature of retailing has changed dramatically, as firms try to protect their positions in the market place. Many customers are no longer willing to spend as much time on shopping as they once did. Some sectors of retailing have become saturated, several retailers are operating under high levels of debt and number of retailers after running frequent "sales", have found it difficult to maintain regular prices.

Retailers are adapting to the shopping needs and time constraints of working women, dual earner households and the increased customer interest in quality and customer service:

Shopping Malls: A growing number of shopping malls are coming up all over the country. In north India; there seems to be a proliferation of such malls surrounding Delhi, in places like Gurgaon and Noida. In general they target higher income customers, with their prestigious speciality shops, restaurants and department stores.

Factory Outlets: Manufacturers are opening factory outlets to sell off surplus inventories and outdated merchandise. This forward vertical integration gives manufacturers greater control over distribution, than selling the merchandise to off price retailers. Mohini knitwear of Ludhiana (Punjab) and number of woolen and hosiery manufacturers set up their outlets in Delhi during winters.

Non Store Retailing: Non store retailing is accelerating at a faster rate than in store retailing. This includes direct marketing. In Home shopping TV shopping and e-tailing etc.

Diversification of Offerings: Scrambled (unrelated products or services) merchandising is taking on a broader meaning and inter type competition

NOTES

among retailers is growing. For instance Citibank is organizing tourist trips and sending mail order catalogues to its credit card customers.

Impact of Technology on Shopping Behaviour: The way retailers present their merchandise and conduct their transactions are changing. Cable TV Channels are used to present merchandise, Videos have replaced catalogues and computer linkages to acquire information and make purchases are on the increase. Virtual shopping through PDA's is another possibility.

Multi Channel Retailing: Traditional store based and catalogue retailers are placing more emphasis on their electronic channels and evolving into multi channel retailers, because they can reach new markets and overcome limitations posed by traditional formats.

1.10 EVOLUTION OF RETAIL ENVIRONMENT

There has been a tremendous metamorphosis in the retailing environment in India over the last ten years, and the beginning of this evolution can be traced to early years of the liberalization process in the country.

Retailing is the final step in the distribution of merchandise, the last link in the supply chain, the connection between bulk producers of commodities and consumers. Retailing covers a host of diverse products such as food, apparel, consumer, goods and services. In developed countries, the retailing business has developed into a full fledged industry, where over 75% of the total retail trade is handled by the organized sector. Large retail formats, with high quality ambience and courteous, well trained sales staff are regular features of these retailers. Organized retailing in India was estimated at ₹18,000 crores in the year 2002–2003 with a phenomenonal growth rate of 40% over the last three years. Indian retail is fragmented, with over 12 million outlets operating in the country of which 98% are in the unorganized sector.

Charles Darwin's theory of Evolution suggests that animals must adapt to their changing environment or perish like the dinosaurs.

In today's retail environment, different evolutionary forces are busy at work. Instead of people adapting to change, the retail environment is adapting to a changing population. With approximately 13% contribution to the GDP and 7% employment to employable adults in the country, retailing in India is poised for growth like never before and is decidedly a very strong pillar of the Indian economy.

1.11 INDUSTRY DYNAMICS

Structurally, retailing in India is still made up of traditional retail store formats like, the 'Kirana' (mom & pop) shops, hardware shops, pan shops,

weekly 'haats' and flea markets. This is not to say that large retailing formats, like department stores, hyper- markets, malls and speciality stores are non existent. Although, large retail formats are still in a very early stage of development, with 2% share of the organized retail sector, it has definitely established a firm base in India.

Till about a few years ago, organized retailing with the exception of BATA, was confined largely to South India. But organized retailing is now experiencing a boom throughout the country.

For Indian retailing, things started to change slowly around the 1980's, when the Government began opening its economy. In the textile sector, companies like, Bombay Dyeing, Raymonds, S. Kumar and Grasim, were the first to set up retail chains. Later, Titan (Tatas) with its premium watches, successfully created an organized retailing concept in India by establishing a series of elegant show rooms.

The latter half of 1990's however, saw a fresh wave of new entrants in the retailing business. This time it was not a manufacturer looking for an alternative sales channel. These were pure retailers with no serious plans of getting into manufacturing. The fields they entered into, were diverse: Food world, Subhiksha and Nilgiri's in food and FMCG, PlanetM and, Musicworld in music, CrossWord and Fountainhead in books.

Retail growth is already gathering momentum and the organized retail industry is expected to grow by 30% in the next five years and is estimated to reach ₹ 45,000 chore in 2005–06.

The forces propelling this evolution spring from increased levels of education, technological change and people's life styles. Discretionary income is there to spend but the time to spend it is not. Shopping once considered a pastime in the era of traditional families is now a time consuming chore.

Factors of Growth

The factors that are expected to contribute to the growth and consolidation of retailing in India are described below:

Demographics

Retailing in India is at a very nascent stage of its evolution, but within a short period of time it will be in line with the global experience, going by the emerging trend indicators in the environment. During the next ten years, the Indian population is expected to grow by 14 percent. But this increase will not be even across, various segments.

The number of children in the age group, 0–15 is expected to remain stable at approximately 30 million. This reflects a lesser demand for toys, games

NOTES

and some apparel segments. Neverthless these sectors are still expected to offer reasonably high growth, given the nascent stage of the retailing industry in the country.

The number of people in the age group 20–50 years will, in all likelihood grow by 30%. The sales of cosmetics, skin care, hair dyes and other beauty care products are likely to increase. More consumer resources will be spent on housing and retirement planning. Hence real estate businesses and companies offering financial services are expected to benefit.

The number of middle class households are expected to increase by about 25 percent. This should result in a higher growth in home furnishings and decor, along with personal items like apparel and fashion wear.

Dual income families are on the increase. A dual income family can spend more but has little time for shopping. Therefore speed and convenience will become critical dimensions in the retail business, in the years to come. The increase in population will also accentuate an increase in per capita spending.

According to a leading consulting firm in retail management, a rise in middle income groups will lead town expansion of opportunities for retailing. This is reflected in Figures 1.7 and 1.8 as follows:

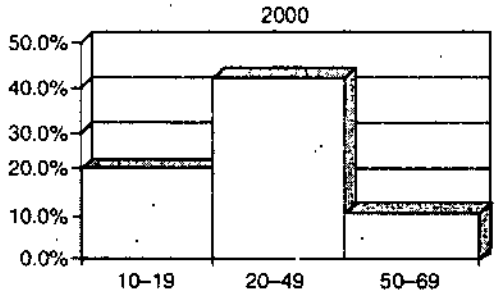


Fig. 1.7

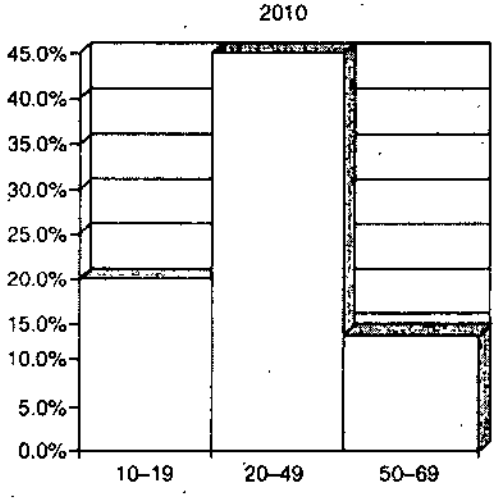


Fig. 1.8

NOTES

Urbanization is another factor contributing to the unprecedented growth in retailing. Rural-Urban mobility has led to high customer density areas, which enables retailers to target a larger number of customers with lesser number of stores, thus resulting in economies of scale for the retailer.

An overall improvement in transportation structure and increased number of automobiles, covering distances has become much easier. Now a customer can travel a long distance to reach a particular shop if he/she sees value in shopping there.

Government Policy and Infrastructure

Despite the tremendous potential that exists, as stated earlier, retailing is among the lesser evolved sectors in the Indian environment. Given the enormous amounts of investments to be made, Foreign Direct Investment (FDI) is expected to play a very significant role. The Indian economy in this respect is highly regulated.

A strong FDI presence in the retail sector will not only boost main stream retailing but will also provide an impetus to FDI investments in up stream activities. This will be more prominent in food processing and packaging industries, because many large retail chains also promote their own brands by way of backward integration or contract manufacturing.

Taking cognisance of the demands made by the industry and the need to give the retail trade a fillip, the Government is actively considering, removing this restriction. The Ministry of Commerce has proposed permission for 100% FDI, subject to Government approval on a case to case basis.

Land and Property Laws are also not very favourable to retailers, *particularly the smaller ones. There is a shortage of good* retail space and the rents are very high for what is available.

Only Indians can own property in India. This restricts the entry of foreign players and hence has a negative impact on FDI. Stamp duties on property deals are significant (its about 8% in Delhi). The lease alone can cost upto 6%–10% of sales, while it is 3%–5% globally, on an average.

The initial urban planning of cities was done with smaller plots, which along with strict building and zoning laws makes the procurement of retail space difficult. The urban land ceiling and rent control acts have had an impact on the property markets, leading to exorbitant property prices.

The Labour Laws meant to protect workers are not flexible enough to support modern formats of retailing. Working hours are restricted, with most shops required to close one day of the week. The corporation tax is 38% and it would be even higher at 45% for a foreign business. Essential basic

NOTES

foodstuff is also taxed—8% on milk. With the introduction of Value Added Tax (VAT) some of the sales tax anomolies in the supply chain could get corrected over a period of time.

However, VAT will be imposed at every stage between the manufacturer and the final customer. This means that the margin paid to intermediaries, including the retailer will also be taxed.

1.12 TECHNOLOGY IN RETAILING

Increasing the efficiency of business processes is a very important part of retailing today. Without accurate data gathering, analysis and the visibility to plan precisely, retailers risk, losing their competitive edge.

Overtime, as consumer demand increased and retailers geared up to meet this challenge, technology evolved rapidly to support this growth. A number of hardware and software tools that have now become essential for retailing are listed below.

Bar Coding and Scanners

Bar coding and scanners are used to identify an item at the Point of Sale (POS). The Universal Product Code (UPC) is a black and white bar code (Figure 1.9) which is used to collect Sales information using computer terminals that read (or scan) the code. The pre-stored data is used to calculate the cost and generate the total bill for the customer.

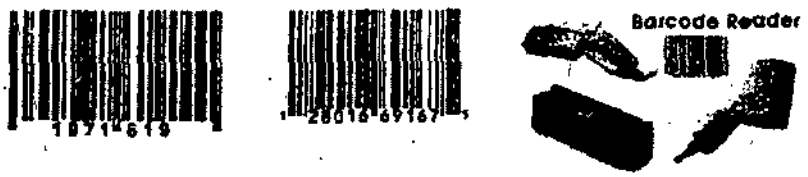


Fig. 1.9

This information can also be transmitted from computer to computer, to buyers, distribution centers and then to vendors who in turn, quickly replenish the merchandise. Tunnel scanning is a new concept where the consumer pushes the full shopping cart through an electronic gate to the point of sale. The items in the cart are hit by a laser beam and scanned, in a matter of seconds. All the customer has to do, is pay for the goods.

NOTES

Credit Cards

Payment through credit cards has become extremely widespread and enables an easy payment process. Electronic cheque conversion, a recent development, processes a cheque electronically by transmitting transaction information to the retailer and the customer's bank. The retailer then voids the cheque and hands it back to the customer along with a receipt.

Electronic Data Interchange (EDI)

This is the computer to computer exchange of information, and business documents, from retailer to vendor and back. In addition to sales data, information regarding purchase orders, invoices and returned merchandise are transmitted from the retailer to the vendor.

Many retailers now require vendors to provide notification of deliveries before they take place. Advanced Shopping Notice (ASN) is an electronic document received by the retailer's computer from the supplier in advance of the shipment. If accurate, the retailer can dispense with opening cartons and checking the merchandise.

Internet

Is very fast emerging as a customer interface, reducing the need for a customer to physically visit a store to view the product's attributes. He/She can do so from the comfort of his/her home and even place an order for the desired merchandise.

The Quick Response (QR) System

In today's retailing environment "you are either quick or you are dead". Many vendors have developed retail specific ERP systems which help to integrate all the function from warehousing to distribution, front and back office store system and merchandising. Such an integrated supply chain, Figure helps the retailer in maintaining his stocks, receiving supplies on time, preventing stock outs and thus reducing his costs and servicing the customer better.

Customer Relationship Management (CRM) Systems

Loyalty programs, mail order and the Internet have provided retailers with real access to data. Data warehousing and data mining technologies offer retailers the tools they need to make sense of the consumer data they have access to, and apply it to business. This allows the retailers to study purchases

behaviour and identify the value of individual customers to their business and also to improve their offerings to potential customers.

NOTES

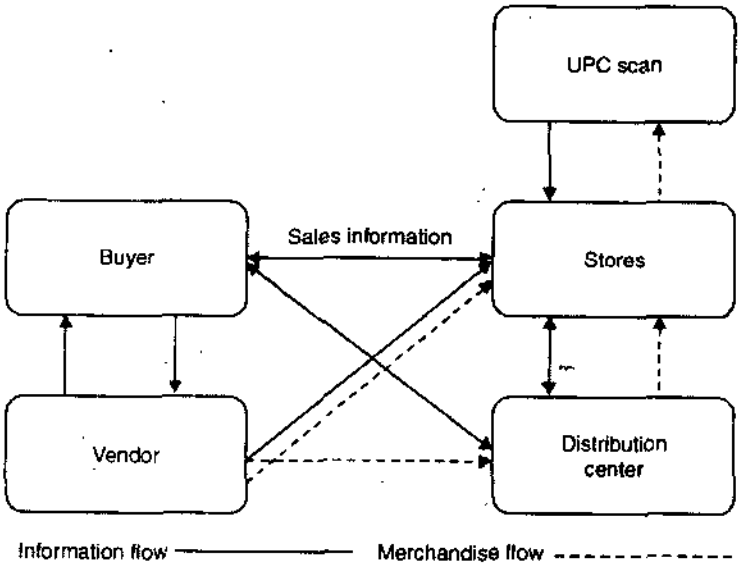


Fig. 1.10. *Quick response system.*

Radio Frequency Identification (RFID)

It is a method of remotely storing and retrieving data using devices called **RFID tags and transponders**. An RFID tag is a small object, such as an adhesive sticker, that can be attached to or incorporated into a product. RFID tags contain antennas to enable them to receive and respond to radio frequency queries from an RFID transceiver.

An RFID system may consist of several components; tags, tag readers, tag programming stations, circulation readers, sorting equipment and tag inventory wands. The purpose of an RFID system is to enable data to be transmitted by a portable device, called tag, which is read by an RFID reader and processed according to the needs of a particular application. The transmitted information may provide location information, or specifics about the product tagged *e.g.*, price, colour, date of purchase etc.

Low frequency RFID tags are commonly used as remote locking devices in cars and as anti theft devices. High frequency RFID tags find application in libraries, book stores, and apparel item tracking etc. RFD tags are being seen as a replacement for UPC or bar codes mentioned earlier. It also has potential application in POS, store checkout, to replace the cashier with an automatic system which needs no bar code scanning.

1.13 CONSUMER TRENDS (INCLUDING CONSUMER BEHAVIOUR)

NOTES

An effective retail strategy satisfies customer needs better than competitor's strategy. Hence, understanding consumer needs and buying behaviour is critical for effective retail decision making. This calls for differentiation.

The basis of differentiation very clearly lies in the customer. We have some obvious trends such as exposure to brands, the working woman and consequent paucity of time for the dual income metro family, rising personal consumption and changing, shopping basket composition. Quite obviously the first step is defining the customer. The bulk of today's department store (*e.g.*, Shoppers stop) customer is likely to be in the 25–45 year age bracket, middle class urban, and upwardly mobile. But even the discount store (*e.g.*, Big Bazar) shopper has similar characteristics. These customers shop in groups either with their families or friends. Hence, even for the discount store the concept of aisles is not suitable. Therefore store layouts have to change to accommodate groups: L or U shaped designs make more sense. Shopping is habit forming and most people continue to patronise the place they are familiar with, unless there is a meaningful reason for doing so, shopping in India even today, despite modernization, is a relationship issue, where the retailer knows and interacts with the families who shop with him.

This implies that the independent retailer will have to realize the shift in consumer behaviour taking place due to new shopping experiences; locational advantages, assortments, category mix, value propositions, ambience and service. Consequently such independent retailers will have to gather more specific market intelligence, with particular reference to demand forecasting. They will have to thus reinvent themselves constantly.

The Indian customer is strongly value driven, but at the same time enjoys the pleasure of shopping. The retailer, therefore, has to ensure that cost efficiencies do not drive emotions away. The presence and proliferation of malls, all over the country and the increasing number of footfalls at these places, is an indicator that shopping is an event, and must be seen as such.

The vast diversity and changing preferences of the Indian customers, poses further problems for the retailer. The Indian customers has become a "shopper" which is evident from the weekend queues outside various stores and shopping plazas or malls, waiting for parking space. The factors that need careful analysis are: what products/services do customers buy? How much are they willing to pay? What mode of payment do they prefer? Do they look for discounts and price offs? What are the regional differences of customers across the country? (*e.g.*, Chennai, Kolkata, Chandigarh, Mumbai etc.).

NOTES

The Consumer Buying Process in Retailing

According to a recent study conducted by A.F. Fergurson and Co; the average monthly income spent on food, grocery and personal care items varied across different segments: Upper income households spent on an average ₹ 4200/- per month. For middle income household the corresponding figure was ₹ 2850/- and the lower income group spent ₹ 1250/- per month.

There is nothing more complex than the human mind. Hence it becomes absolutely critical for a retailer to understand or at least get close to understanding what a customer buys? Why he buys? Where he buys from? when he buys? how often he buys? and under what conditions he buys?

According to Michael Levy and Barton A. Weitz, the stages which customers goes through while selecting a retailer and merchandise are as follows: (*a*) Need recognition (*b*) Search for information about retailers/merchandise (*c*) Evaluate retailers and merchandise, (*d*) Select a retailer/merchandise (*e*) Visit a store or internet site, or look through catalog and purchase merchandise and (*f*) Post purchase evaluation of merchandise and retailer—Repeat store patronage.

Retailers try to influence customers through the buying process to motivate them to buy their merchandise and services. The different stages in the buying process are summarized diagrammatically in Figure 1.11 below:

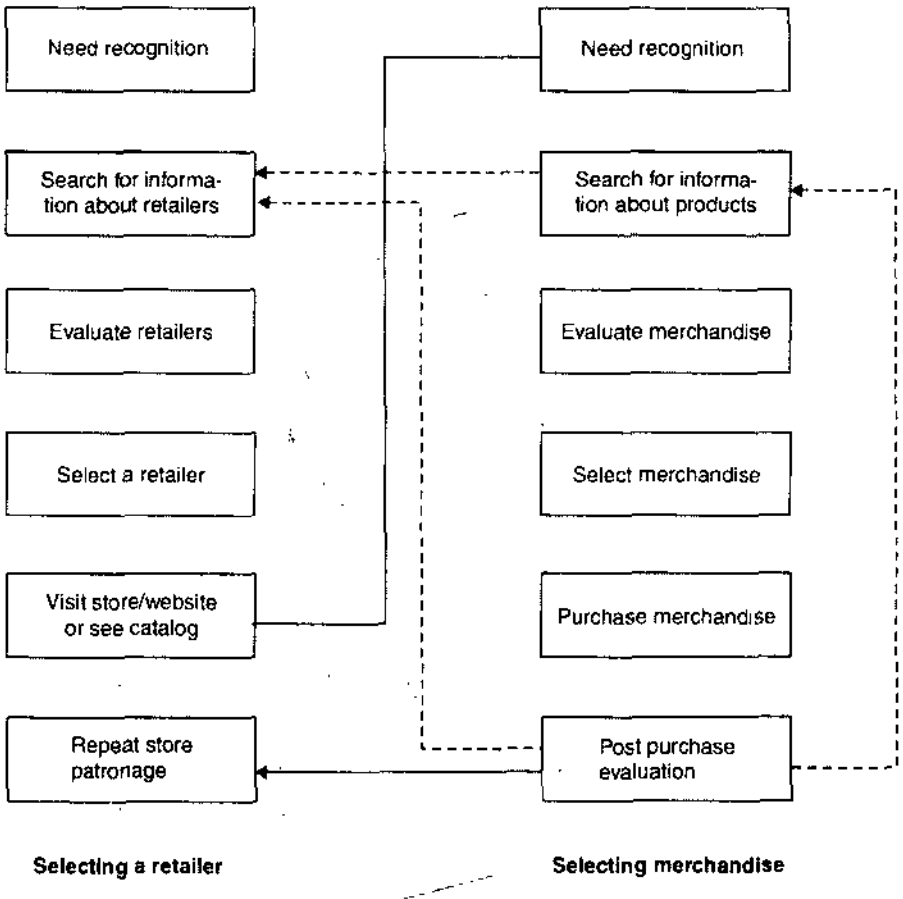


Fig. 1.11

However, it has to be understood that customers may not go through the stages in the same order as shown in the diagram. For example a person might see an advertisement for a Toshiba e-notebook, decide to buy it, and then search for a retailer, selling the notebook. Here the customer decides the product he wants and selects a specific retailer at the same time.

(*a*) **Need recognition:** The buying process is set in motion when a person recognizes an unsatisfied need, which means that, there is a gap between the individual's present level of satisfaction and his desired level. In other words an aroused needs becomes a motive, which requires some form of fulfillment. If a tyre blows out on a car being driven, the need for a new tyre is straight forward and instantaneous. Alternatively, a person who has a car which needs constant repairs and is not very attractive to look at, the need to change the car may be a long drawn and deliberate process.

The needs can be classified into: (*i*) Rational needs and (*ii*) Emotional or Psychological needs. For instance a person who buys a digital camera to develop some art work for advertising, the need is largely rational. But a person, who buys a Louis Philipe shirt instead of an in expensive one to satisfy his clothing need, is essentially motivated by an emotional or psychological need for prestige.

Very often, customers have multiple needs which conflict. A grocery shopper for example might buy an inexpensive brand of hand towels and a very expensive brand of orange juice. This pattern of premium and low priced merchandise or retailer patronage is referred to as, **cross shopping**.

(*b*) **Information search:** Having identified a need, the next step in the process, is to seek information about a product/service and retailers, to satisfy that need.

A buyer may have confidence in a particular retailer or dealer, in terms of quality and pricing of merchandise, although the variety with this retailer may not be too large. Then the decision to buy may be made quickly. On the other hand, while buying a high involvement, expensive consumer durable, where a large number of brand choices exist, the search for information is extensive and time consuming.

The amount of information search depends to a great extent on the value placed on searching by the customer versus the cost of searching. Travelling from one store to another can cost a lot of money but the major cost is the customers' time. The internet, today can reduce this cost, drastically.

The customer may rely on both Internal and External sources of information. Internal sources could include; names, images and past

NOTES

experience with different stores, in the customer's memory, or the buyer may collect information through external sources, such as advertisements, retailer and product ratings, family and friends etc.

(*c*) **Evaluation of alternatives:** An individual seeks alternative solutions to a problem (need) with an eye towards reducing risk. Therefore he/she evaluates the located alternative (product and retailer) with the thought of reducing risk.

In the evaluation of alternatives, the prospective buyer likes to employ appropriate choice criteria in analyzing particular products or retailers. These criteria are those critical attributes utilized to evaluate a brand or retailer. The criteria used, depends upon the customer and the situation in which the customer is placed.

For example, someone who needs a car battery, might buy it at a neighbourhood retail outlet even if the price is marginally higher. He feels that the time saved in not seeking other sources, is worth the extra money spent. But sometimes the choice criteria might be based on the results and conclusives drawn from a study of the relative merits of different brands and retailers of batteries. Some attributes relating to stores could be price, delivery, travel time, check out time, variety, freshness, easy access etc. The customer mentally processes information about each retailer and forms an impression about the benefits the stores provide. This information is then matched with the importance the buyer places on each attribute before coming to a final decision on the merchandise and retailer.

(*d*) **Selecting a retailer:** A retailer has to ensure that it enters the customer's consideration set. This is a set of alternatives, the customer evaluates when making a selection. The retailer therefore has to develop programs to increase the likelihood that customers will remember it when going shopping. The retailer can influence this top of the mind awareness through effective advertising and locational strategies. Advertising stressing the retailer's name and several store locations in a strategic geographical area can increase the awareness.

(*e*) **Purchase decision:** Customers do not always purchase a brand or product with the highest overall evaluation. Such an item may not be available in the store, or the customer feels that the risk out weighs the potential benefits.

Hence the retailers can increase the probability, that customers will convert their positive evaluations into purchase by: (*i*) Stocking a complete assortment of sizes, colours, shapes etc. (*ii*) Reducing the risk of purchase through, liberal return policies and refunds, if the same

product is available, at a lower price from another retailer. (*iii*) Offering credit (*iv*) Having convenient checkout facilities (*v*) Reducing the actual and perceived waiting time.

(*f*) **Post purchase evaluation:** Having made the purchase, the matter of the customers satisfaction or dissatisfaction skill remains. In some cases the satisfaction is immediate; *e.g.*, in smoking a cigarette, or consuming a soft drink, the customer is pleased that the decision making process is over.

NOTES

On the other hand the consumer might feel uneasy after the purchase. Is the battery good in winter conditions? Should I have bought (*x*) instead of (*y*)? This leads to what is known as "Cognitive Dissonance", an uncomfortable feeling about having made a wrong purchase decision.

Satisfaction is the post consumption evaluation of how well a store or product meets or exceeds the customer's expectations. This can easily affect future, store and product decisions. Consistently high levels of satisfaction result in store loyalty, which can be a tremendous competitive advantage for retailers.

1.14 ATMOSPHERICS—THE PHYSICAL ENVIRONMENT IN RETAILING

The retail Point of Sales (POS) represents the time and the place at which the elements of the sale—the customer, the money, and the product come together.

"Atmospherics, refers to the design of an environment through visual communication, lighting, colours, music and scent to stimulate the customers' perceptual, emotional responses and hopefully, to affect their purchase behaviour".

While the graphic representation (especially packing, promotional material and listing etc.) of most businesses improves over time, carelessness almost always creeps into other areas. When the retailers' appearance is not what the customers expect, there is a risk of making them uncomfortable.

Visual Communications: Which include graphics, signs, and theatrical effects both inside the store and in windows help to boost sales by providing information on products and suggesting items or special purchases. They also help the customer find a department or section. Photo panels can add beauty, personality and magic to a store's image.

Signs and graphics should act as a connecting link between the merchandise and the target markets. The colours and other effects of the signs and graphics should complement the merchandise. For example a black and white

NOTES

rectangular sign does not relate well with a children's display, whereas a red-yellow circus tent design will work wonders. Colour combinations must appeal to specific groups of customers, or highlight specific merchandise.

Lighting: Lighting is more than just illumination. It should be used to highlight merchandise and capture a mood or feeling that enhances the store's image. A good lighting system creates a sense of excitement in the store, but at the same time renders products in their true colours. A blue shirt should look blue even in artificial lighting. The cosmetic area of a store requires more expensive lighting, than just plain fluorescent lamps. Another use of lighting is to focus spot lights on special features of products. This is known as "popping the merchandise."

Colour: Colour can go a long way in promoting the retailer's image and help create a specific mood. According to researchers Joseph. A. Bellizi and Robert E. Hite, warm colours, like red and yellow produce opposite physiological and psychological effects as compared to cool colours like blue and green. The colour red has been found to increase blood pressure, respiration and other physical responses.

From a retail point of view, warm colours are supplosed to attract attention, but at the same time can be unpleasant. Fast food out lets often used red or other warm colours to facilitate a retail turnover. Cool colours on the other hand are more suitable for anxiety causing products, such as expensive merchandise or consumer durables.

Music: Music, like colour and lighting can either enhance or reduce the retailer's image. However, music, unlike the other atmospherics can be changed easily. Like variations in lighting, fixtures and other store design elements, changing music in different parts of a store can affect customers' behaviour, mood or appeal. Music can be used to connect emotionally to customers.

Scent: "Smell more than any other sense, is a straight line to feelings of happiness, hunger, disgust and nostalgia the same feelings marketers want to tape". Scent in combination with music has a positive impact on impulse buying behaviour and customer satisfaction. However, the nature of scent appears to be less important. Customers gave better perception of stores with scent, regardless of the type of scent, than those without any scent.

The important thing is that good smells can be an incredibly powerful part of a the important thing is that good smells can be an incredibly powerful part of a retailer's image, just as inappropriate ones can ruin it. The smell of a disinfectant in a clinic is positives but in a bakery it can be disaster.

Peets' Coffee stores in America are a famous example of a business that owes a large part of its success to a magnificent aroma. Over three decades ago Mr. Peet opened a tiny neighbourhood shop to sell coffee beans he imported

and roasted on the premises. Coffee drinkers could not resist the aroma of fresh roasted coffee that permeated the neighbourhood.When they went inside they were greeted with a pleasant surprise—a little coffee bar where they could enjoy a superior cup of coffee at a reasonable price.

NOTES

Cleanliness is crucially important to all businesses, particularly, retailing. It is perceived as measure of the retailer's competence. Despite this, most businesses are not as clean as they should be. In a competitive environment, this can seriously damage a retail store's image.

Clutter: Small neighbourhood stores, traditionally have had a problem with clutter, not only because they are inefficiently designed to handle a high volume of incoming products, but also because they are often short of space.

Most book shops in the country are badly cluttered, with inefficiently designed aisles. But "Cross Word" chain of book stores across the nation are a very welcome divergence, with clean, uncluttered arrangement of books, shelves and moving space.

1.15 MULTICHANNEL RETAILING AND OTHER EMERGING TRENDS

The new, demanding consumer has higher needs and expectations from life in general, and retailing in particular. This is the result of a well educated smart shopper, a new communications paradigm, pervasive advertising, and a surplus of just about everything (money, merchandise, retail space, stores etc.) except time. This translates into "I want it better, cheaper, easier, faster and now." The consumer knows that if he/she can not have these demands met by a particular business/retailer, there are a host of alternatives available.

The arrival of **e-tailing** (electronic retailing or shopping on the internet) is shaking up the status quo, because it has tremendous competitive advantages over traditional channels. A study of this situation clearly indicates that retailers today must adopt a model which meets the demands of the "I want it better, etc." customer. A model that can reach out and touch and be touched at any time or place.

In an effort to dominate the consumer segment and own individual consumers, the critical link is communications—advertising through personal dialogue. Therefore it is important for retailers to ensure that they use all appropriate channel options. In other words, what is needed is a **multi channel strategy**.

A multi channel retailer sells merchandise or services through more than one channel. Many single channel retailers are evolving into multi channel

NOTES

retailers to attract and satisfy' more customers. Through a combination of channels, retailers can offer unique benefits provided by each channel.

In a consumer centric, hyper competitive environment, success in retailing will come from.. giving customers, **solutions** to their needs and wants through different channels. Figure 1.12 below, highlights the advantages and benefits of various channels in **cross format shopping**.

Stores	*Catalog*	*Internet*
Browsing	Convenience	Convenience
Touching and Feeling	Portability, Easy access	Safe Environment
Products	Safety	Wide Selection
Personal service	Visual Impact	Detailed Information
(Cash payment		Personalized
Immediate Gratification		
Entertainment and		
Social Interaction		

Fig. 1.12

The benefit to customers from **Bricks & Mortar or Store Channels** include:

- **Browsing:** Very often customers only have a general idea about what they want (*e.g.*, a shirt, a pen or a gift) but do not know the specific item they want. Looking through a store helps them decide.
- **Touching and Feeling Products:** Customers can use their live senses touch, taste, see, hear, etc; while examining products.
- **Personal Service:** Sales people very often provide meaningful, personalized service to customers, including—answers to queries and suggestions.
- **Cash Payment:** Many people prefer to pay cash for merchandise purchased, stores are the only channel, which make this possible.
- **Immediate Gratification:** Stores allow customers to obtain the merchandise, immediately after it is bought.
- **Entertainment and Social Experience:** Quite often shopping is seen as a social event, where people interact with, and meet friends, apart from being an outing to breaking the monotony of daily life.

Catalog Channels: Offer convenience of browsing through the available merchandise, and placing an order anytime of the day, on any day from anywhere. Customers can look through a catalog on a journey, in office or in bed. An added advantage of catalog shopping is the safe environment from where an order can be placed.

The Internet: In addition to the convenience and security of shopping from home or office, **e-tailing** has the advantage of offering a wider selection of

products and more personalized information. A shopper in New Delhi can use the internet to access a host of e-tailers across the world, giving him/her a much wider selection, than is possible in a store format. This obviously means far more information, which possibly results in a better decision. Another advantage of e-tailing is that information can be economically personalized to suit the needs of each customer. However, shopping on the internet has potential dangers as well. Significant among these are: (*i*) security of credit card transactions and (*ii*) privacy violations.

1.16 RETAIL PLANNING DEVELOPMENT AND CONTROL

Retail strategy is about corporate survival and prosperity in a changing retail environment. It is about environmental analysis; identification of those factors critical to success; recognition and building of corporate competences; developing, maintaining and communicating strategic direction—to staff, to customers, to competitors.

The organization's mission encapsulates its direction and its values in the changing marketplace, which are then developed into corporate objectives. Environmental audit and analysis will highlight the main opportunities and threats to the retailer, while resource audit and analyses will develop understanding of its strategic capability. Strategic choice involves the consideration of strategic options and their evaluation in relation to organizational capability.

This chapter outlines the strategic planning process, defines mission and corporate objectives, and explains environmental, competitive and resource audits. The scope of strategic choice for retailers incorporates generic strategies, expansion strategies and methods of evaluating strategies.

Location strategy, which is one of the most important facets of retail strategy because of the degree of investment in location decisions, is covered in a section which explains methods of catchment definition, analysis and comparison to allow informed decisions to be made regarding location choice.

1.17 THE STRATEGIC PLANNING PROCESS

The strategic planning process encompasses three main steps. Firstly, the external, competitive and organizational environment are audited and analysed. Secondly, strategic options are explored and evaluated, before a strategy or strategies are selected. Thirdly, strategy is implemented through setting up action plans and allocating human, financial and material resources to meet objectives.

NOTES

1.18 CORPORATE STRATEGY AND OBJECTIVES

Despite the changing environment, successful retail organizations tend to have a clear direction, or mission, which is really a rationale for the existence and progress of the company. Often, organizations verbalize this mission in a mission statement. However, even if they don't, the mission or direction creates the focus for corporate strategy, and the setting of corporate objectives. The mission should encapsulate the core competences and critical success factors for the organization—that is, the company strengths and the areas in which the company has to succeed to thrive—as well as try to inform internal and external customers about what their role is in delivering success. The organization's mission and strategy is normally set out in a series of corporate objectives, which are explicit time-related goals against which to assess organizational progress and achievements. They often incorporate marketing objectives, for example setting a percentage of market share, or a level of sales as a corporate target. However, particularly in large organizations, the corporate objectives are sometimes more general targets. Corporate objectives form the basis for planning and setting objectives for other operational areas such as logistics, marketing and human resource management.

1.19 DEVELOPMENT

Environmental scanning will highlight major external influences which create the climate of opportunity for the organization Commonly known as the PEST, STEP or SPELT factors (Political, Economic, Social, Legal and Technological), the main sectors of the environment are:

- Demographic and socio-cultural developments Examples: population structure and change; income distribution; lifestyle changes; communication methods; work and leisure trends; consumerism; environmentalism; attitudes to globalization.
- Government policy, regulatory agencies, pressure groups (at transnational, national, regional and local levels) Examples: stability of home and market governments; policies on taxation; transport; environment; planning; construction; agriculture, horticulture, fisheries and food; training and education; consumer associations and environmental groups.
- Legal framework—European and UK laws and regulations Examples: legislation on health and safety; packaging and waste; disability discrimination; data protection; e-commerce; equal opportunities; monopolies; environmental protection.

NOTES

- Economic environment, capital and labour markets Examples: taxation and interest rates; pension values; spending and saving patterns; employment levels; stage of business cycle (recession, recovery, prosperity); Gross National Product (GNP) trends, inflation, disposable income.
- Technological environment Examples: government spending on research; focus of technological effort; speed of technology transfer; rates of obsolescence; biotechnology, robotics; information technology.

Although it is important to identify and focus on those elements of the external environment which most closely affect the workings and operational direction of the organization, a broad knowledge of PEST trends and developments is essential for retail organizations because they operate in fast-paced, highly competitive environments, and many problems and opportunities are created by trends in the wider environment.

The key environmental influences on the organization should be listed in a simple PEST analysis. More extensive PEST analysis can be used to assess the variable potential impacts of the key influences, or to gauge the extent of the impact of the key influences on the main competing organizations in a sector.

Some analysts would also consider the competitive market and the organizational environment at this stage. Others would propose structural analysis of the competitive environment as a sequential stage to environmental analysis.

The 'five forces' approach to analysing the structure of competitive environment was advocated by Michael Porter (1980), and although dated, it forms a useful tool in assessing the competitive situation at a local, national or transnational level. According to this approach, the five forces which form the theatre of competition are:

1. Threat of entrants.
2. Bargaining power of suppliers.
3. Bargaining power of buyers.
4. Threat of substitutes.
5. Competitive rivalry.

Threat of entrants. This depends on the barriers to entry such as economies of scale, capital needed to enter the market, likely retaliation of existing competitors and access to distribution channels. In retailing the barriers to entry are low. It is relatively cheap and easy to set up a retail store on a small scale. One of the reasons it can be difficult to get comprehensive data on the extent of retail activity on a regional basis is because so many small retailers start and fail on an annual basis. It is also relatively feasible for a retail major to enter a local market and undercut local retailers through

NOTES

price competition enabled through cost advantages achievable through dominance in distribution channels. At transnational level, large-scale entry can be achieved through commercial, financial and political influence.

Bargaining power of suppliers. Supplier power is likely to be high when there is a concentration of large suppliers with strong established brands. A high cost of switching from one supplier to another increases power, as does technological 'tie-in'. Supplier power is also linked to the likelihood of forward integration in the marketing channel. The growth of retailer power over the last few decades has weakened the bargaining power of suppliers, as has the growth of globalization, where manufactured goods are sourced from cheap overseas suppliers. However, the growth of technological supplier–retailer links increased bargaining power, as does the potential for larger scale forward integration offered by factory warehouses, outlet centres and e-tailing.

Bargaining power of buyers. Buyer power is clearly likely to be high when there is a concentration of buyers and volume of purchases is high, and this is especially the case where the goods being bought are difficult to differentiate in the eyes of the end customer. Bargaining power is also increased by the potential for buyers to integrate backwards in the distribution channel. Bargaining power is high among major retail organizations due to their large size and concentration in number; backward integration is also a feature of large-scale retailing and the growth of own-branding (and especially premium branding) also contributes to buyer power. In retailing it is also possible to conceive of 'the consumer' as buyer, and retailers who refer to the 'customer as dictator' are perhaps referring to the collective influence of customer bargaining power on the retail industry.

Threat of subsititutes. This means substitution of organization, product or process. There have been a number of threats to the equilibrium of the retail market—the arrival of hard discounters threatened the grocery majors during the 1980s; the growth of retail parks threatens established town centre retailers; the dot.com boom threatened store-based retailing.

Substitution also exists in the form of competition for customer spend. For retailers, the growing proportion of disposable income spent on leisure, travel and mortgages can pose a threat of substitute. *Competitive rivalry.* This increases where barriers to entry are low; supplier or buyer power is high and there is a high threat of substitutes. Other features of enhanced competitive rivalry which are evident in the retail market include:

- Equality of size among the dominant organizations as each will push for market share;
- Market in slow growth will further fuel rivalry;
- Conditions in which weaker organizations will be absorbed (through merger, acquisition, alliance) by larger ones to increase share;

NOTES

- High market exit costs through established property portfolios and long leases.

Five forces analysis can establish the balance of the competitive market and form a foundation for future strategy. Is it possible to reduce the threat of substitute by diversification, for example? Can barriers to entry be raised? What are the strengths and weaknesses of rival companies in relation to the key forces? Establishing the underlying forces – for example, government policy towards foreign retailers establishing networks in the UK, technological and social forces creating new patterns of buying – can indicate potential variation of the nature and balance of the five forces.

Market analyses such as the product—market expansion grid, market positioning and growth—share matrix help to relate the organization's position and potential to market opportunities, in order to achieve competitive advantage.

1.20 RESOURCE AUDIT AND ANALYSIS

Environmental audit and analysis will highlight potential external opportunities and threats to the organization. The exploitation of environmental opportunity requires:

1. Recognition that an opportunity exists.
2. Assessment of whether the opportunity is viable.

The former requires management experience, creativity and acumen, in addition to organizational capability in environmental scanning and analysis and organizational communication systems which facilitate the vertical flow of market and consumer information. The latter requires assessment of the opportunity against organizational capability. Corporate audit is the objective assessment of the organization's financial, material and human resource capability, and should also take into consideration intangibles such as corporate image, goodwill, brand name, strength of supply network and contact network. The financial resource audit may include:

- Sources of capital and credit.
- Control of debtors and creditors.
- Cash management.
- Relationship with key financial contacts.
- Investments.

The physical resource audit may include:

- Property portfolio—size/age/location/state of repair.

NOTES

- Equipment—amount/capability/location/age/durability.
- Physical resource outsourcement organizations and relationships.

The human resource audit may include:

- Organizational structure.
- Numbers and deployment of staff.
- Contracts/job descriptions/flexibility.
- Staff skills and capabilities.
- Human resource recruitment agency and relationships.

A comprehensive, objective audit should highlight where the organization's core competences lie—that is, those strengths which give it a competitive edge. This allows a more rational judgement of its potential to exploit opportunities.

Organizations do not operate in isolation, and there are a variety of supplementary theories and analyses which give further insight into resource capability in the retail context, four of which are value chain analysis, resource-based theory, network theory and, most widely known, SWOT analysis. Value chain analysis focuses on achievement of competitive advantage through organizational competences, and helps to show where the organization can add value and create cost savings in business and supply chain processes.

Resource-based theory of the firm focuses on the various resources, capabilities and core competences within organizations, which will allow it to compete effectively (Cox, 1996). Dynamic capabilities are created over time and may depend on the organization's past use of resources (Barney, 1991). Sustainable competitive advantage depends on the ability and creativity of the organization in acquisition, combination and deployment of resources to yield productivity or value advantages. The resources which are a source of sustainable value are those which are difficult to copy because they lie within organizational activities and routines which represent core competences.

Competitive advantage is dependent upon the ownership or acquisition of superior rent-earning, unique resources and relationships. The outsourcing of functions can be seen, therefore, as a means of accessing the resource base (and hence core competences) of other organizations to create sustainable value. A company with specific core skills in logistics should contract internally for the use of these skills, but complementary skills such as merchandising or human resource management might be better contracted out on a partnership basis, securing access to the resource base of partnership organizations.

Unrelated skills such as car park maintenance would be outsourced on an 'arm's length' basis. The network perspective assumes that organizations

depend on resources controlled by other firms. Access to these resources is gained by interactions with these firms, forming value chain partnerships and networks.

NOTES

Network theory focuses on creating partnerships based on trust, cross-functional teamwork and inter-organizational co-operation (Ford, 1997). Rather than one organization gaining competitive advantage over another, it is more a case of one network competing against another (Christopher, 1997). Again, non-core organizational activities are outsourced but efficiencies and the effectiveness of the network are regarded as essential for organizational success.

SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis is a widely used means of rationalizing and prioritizing the outcomes of environmental analysis and the resource audit. Firstly, the main strengths and weaknesses of the organization, highlighted through the resource audit, are listed. Then the main opportunities and threats for the organization, revealed by analysis of the external and competitive environment, are summarized. The SWOT analysis can be further refined by matching core competences to the key environmental trends and weighting according to the potential level of effect—positive or negative—on the organization. Even after refinement, the SWOT analysis remains a subjective tool; nevertheless, it remains a well-used aid to strategy which is also used at a functional level. For example, a SWOT analysis is frequently carried out as part of the marketing planning process.

1.21 SWOT ANALYSIS

Strengths

- Low turnover of permanent staff.
- Located near motorway junction.
- Three million people within 1 hour drive time.
- Growth in sales over the last 3 years.
- Brand image.
- Creative organization.

Weaknesses

- Low sales November–March.
- Decline in profitability.
- Growing crime figures.
- Training of temporary staff.

NOTES

- Joint marketing.
- Increased turnover in managers.

Opportunities

- Growth of population within 1 hour drive time.
- Increase in market share.
- Increase profitability.
- Non-store retailing.
- Expansion into entertainment, leisure, takeaway.

Threats

- Expansion of retail/entertainment park nearby.
- Legislation on e-commerce, packaging and waste, disability discrimination.
- Recession forecast.
- Takeover by global retail group.

1.22 STRATEGIC CHOICE: CONTROL

Generic Strategies

Traditionally, retailers have three main strategic choices. Firstly, they can focus on cost, driving down organizational costs through streamlining their operations, logistics and other functions. This cost efficiency can be used either to create sufficient margin to provide quality products and services, or to drive down prices and create volume throughput. This cost focus has created success for a great many retailers, including the UK's Tesco, Germany's Aldi and the USA's Wal-Mart.

Secondly, retailers can differentiate their offer, creating value for their customers in the retailer brand itself. Here the organization's efforts are concentrated on achieving an offer which is different from those of other retailers, thereby attracting customers who are willing to pay a premium price for added value.

Many retail organizations have benefited from this strategy, among them fashion retailers Next and French Connection, department stores such as Harrods and Harvey Nichols, and food retailers such as Fortnum & Mason.

Thirdly, retailers can focus on a highly targeted market segment, directing organizational efforts to filling the needs of a known and predetermined group of customers, using either a low cost base or differentiation depending on the segment. Smaller retailers with limited resources can develop using this strategy, and during the 1990s larger retailers have used 'focus' as a

means of developing successful targeted versions of their 'mother' retail format—for example, Tesco Express and Tesco.com.

A fourth option, which is currently pursued by some large retail groups, is to pursue simultaneously all three strategies under the guise of differing retailer brands. This is facilitated by the growth in multichannelling , in highly detailed customer and segment information, and in ways to shop—including by foot, online, mail order, TV and mobile phone. However, there is a risk that cost focus in one subsidiary of the business will compromise the differentiated quality brand of another subsidiary.

NOTES

Piercy (2001) claimed that *revolutionary* strategy is about *breaking free*. This means that organizational strategists should free themselves from management tools and tactics such as TQM, business re-engineering and efficient consumer response, because these focus on operations--no substitute for leadership and visionary strategic direction. It means that strategy is about breaking free of industry 'rules' and 'dogma', because customers don't know the 'rules' anyway. The term 'breaking free' really means that strategists:

- Should embrace rather than fear change?
- Should not be confined by current operational issues?
- Should be careful not to be over-influenced by trendy management tools and theories?
- Should not be over-reliant on performance indicators—which reflect only past performance?
- Need to understand the core competences of the organization;
- Have to think laterally to apply these core competences to add value to the business and build differentiation from the competition?

It is important here to distinguish between corporate strategy and marketing strategy. The former relates to the direction taken by the organization and the latter relates this to the market situation. However, in many market-orientated commercial organizations such as retailers there is a strong correlation between the two, and then corporate strategy may incorporate strategic marketing elements such as format development, market entry, market penetration and diversification of market activities.

Expansion Strategies

There are a variety of strategies which can be employed to grow the retail business. The product—market expansion grid relates growth opportunities to the organization's present and potential products and markets. It is summarizes the major growth vectors for retail organizations under the headings:

- Existing proposition.

NOTES

- New products/services.
- New segments.
- Geographical development.
- New channels.
- New formats.

Each direction of growth offers scope for expansion on a continuum from the existing operational platform through related activity to a new operational platform. Expansion of a nature related to the core retail offer (which houses the core competences of the organization) is less risky than expansion into an operational platform which is new to the organization.

Expansion of core operational platform is where the existing proposition grows market share through organic growth, that is, through investment in growing the current business; or by acquiring share through acquisition, merger or other methods of expansion, bringing the new business into line with the core business. Non-organic growth is likely to require adaptations to the core business, which interrelate with other growth vectors such as format modification and channel development, in order to integrate diverse operational platforms successfully.

New segment development involves developing, profiling and targeting new consumer and organizational segments. A fashion retailer could, for example, extend into childrenswear and menswear. A more radical strategy would entail moving into unrelated segments such as uniforms or workwear. New products/services development has been the focus of much recent retail strategy, as new merchandise and an extended service offering exploits the potential of current markets. Simple examples include extended opening of grocery stores and addition of food or beverages in non-food retailers such as bookshops and travel agents. Format modification and development is a further focus of retail strategy in which styles of retailing are tailored to the needs of customer segments. Examples include off-price stores and factory outlet units offering excess or experimental stock at value prices.

Channel strengths can be exploited in the development of new retail activity—Tesco, for example, made use of its national store network to rapidly roll out its e-tail format, then used its online platform to develop its range of producer–customer and wholesaler—customer distributed goods.

Geographical development involves growth of market share through movement into adjacent areas and regions, and more radically, into international or global expansion. There are many links among the various growth vectors. Segment development will normally require development of new products and services; channel and segment development may be inter-related, as may format, segment and product/service development.

NOTES

Evaluating Strategies

Strategic alternatives need to be assessed for their strategic fit with the current organizational operations. Does the strategy exploit organizational strengths and extend use of core competences? Does it compensate for organizational weaknesses or add to existing competences? Does it fit with the organization's mission? Some of the analytical tools outlined in other chapters of this book can also be used. For example, portfolio analysis can be used to show where a new format fits with the current portfolio of formats. Life cycle analysis can be used to indicate whether a strategy is liable to extend or renew the life cycle of a format or product group. Value chain analysis can be used to assess where a strategy adds to the value system.

The feasibility of implementing various potential strategies can be assessed and compared to facilitate choice. This can be done by estimating relative costs of implementation and deciding such factors as whether and how the organization is capable of funding the strategy, whether it can be implemented by the existing organization and the extent of structural change that will be needed. The acceptability of implementing the various potential strategies can also be compared in terms of stakeholder expectations, profitability, and financial, corporate and environmental risk.

Location Strategy

Retailing is about *delivering to the customer the right products or services* in the right quantities, at the right time, in the right place. Retail location, therefore, is fundamental to the success of the business. Retail location is important to customers, who take the location of the store into consideration when making the decision of where to buy. For frequently bought goods such as groceries, customers tend to choose the closest shop (to home or work); whereas for shopping goods such as clothes, or speciality goods, customers are influenced by a variety of factors such as distance to travel, cumulative attractiveness of the town or shopping centre in terms of the total retail and entertainment offer, access, availability and cost of car parking and other ancillary facilities.

The investment made in building, leasing and shopfitting a retail unit, and the length of time retailers are tied into a lease – in some cases 10 or more years—means that changing location is difficult, timeconsuming and expensive. The research and comparison of catchments, trading areas and site specifics can aid the identification of sites with current and future trading potential, through which a retailer can develop a sustainable advantage over competitors. Location is an essential strand of corporate strategy which has to be considered in an integrated manner when expanding a retail business.

1.23 LOCATION AND METHODS OF EXPANSION

NOTES

The three main methods of expansion are:

- Organic growth.
- Mergers/acquisitions.
- Strategic alliance.

Organic growth is investment channelled from the financial capability of the current organization into development of organizational capability – for example, to fund the development and roll-out of formats, horizontal or vertical integration and international growth. Growth tends to be slow or steady, and the organization retains autonomy, decision-making control and benefits from development of new areas of competence, while avoiding the difficulties of integrating differing organizational cultures and management systems which are experienced by organizations growing through acquisition or merger. However, rapid organic growth is possible where there is access to capital, by, for example, raising money through issuing extra shares rights to investors.

From a locational perspective, there are two major types of organic growth. Local and regional expansion from a single outlet, termed contagious diffusion, describes the early growth experience of longestablished retailers which were geographically confined by transportation and distribution networks. It is the expansion method chosen by many small retail businesses, but has also been used by dominant retailers such as Wal-Mart (Birkin et al., 2002). The second type, hierarchical diffusion, is the growth route for many established retail organizations which open outlets in major cities and towns. J Sainsbury's entry into Scotland is an example. Stores were opened in rapid succession in Glasgow, Edinburgh, Aberdeen and Dundee—Scotland's four largest cities. Smaller stores were opened in regional town centres, and 'local' stores built to serve less populous communities as J Sainsbury's progressed its expansion. Both strategies can be deployed simultaneously by rolling out operations in selected large urban centres and expanding outwards by contagious diffusion.

Merger and acquisition offers a route to growth in market share and market dominance in addition to rapid entry of new product and market areas. A merger is where two retail organizations come together to form a combined operation, whereas acquisition describes the action of one retailer buying more than a 50 per cent share of another. Both methods have been widely used by retailers competing in the international retail market, such as Tesco, Ahold and Casino, which benefit from the acquisition, across diverse markets, of sources of established expertise, knowledge, property portfolio, contact and supply networks in addition to the customer base.

Tesco's expansion into Scotland, in competition with J. Sainsbury's, was accelerated through acquisition of Wm Low & Co, a regionally dominant

NOTES

grocery multiple, and established the organization as a main player in the Scottish market both physically and in the minds of the Scottish consumer. Stricter planning policy came into force at about the same time, which also made organic growth through new-build operations more expensive and time-consuming. Wal-Mart used this method of international expansion when it acquired the chain of ASDA superstores to secure entry to the UK market. While access to a wide geographical coverage in the UK 'fit' Wal-Mart's ambitions for global expansion, the property portfolio offered the potential for expansion of existing superstores to ASDA–Wal-Mart supercentres. The ASDA mix of successful clothing and non-food merchandise categories with groceries also resembled that of the parent company. In addition, it could be argued that there was also a psychological 'fit', because ASDA was one of the superstore pioneers in the UK, with a long-established and popular reputation among its customers for good value at low prices; indeed, its 'every day low pricing' strategy also matched that of the parent company.

One of the main problems with acquisition is the merging of organizational cultures and styles of management, and this is exacerbated by the prospect of rationalization of activities and closure of outlets, which creates job uncertainty. Where organizations merge voluntarily the potential for organizational conflict is reduced due to the focus on synergistic benefits of the merger. However, rationalization is a common feature post merger and acquisition, particularly where the organization is left with two or more competing stores, which affects potential profitability. In the case of Wal-Mart, where the parent company has a reputation as a 'category killer' which has opened seven ASDA–Wal-Mart supercentres between 2000 and 2002, rationalization remains a possible future scenario. Future merger or acquisition between grocery majors in the UK is likely to bring a level of monopoly which would force rationalization through the actions of the Competition Commission.

Strategic alliances, where two or more organizations come together to complete a project, to wield combined power or to gain synergy from the combination of diverse organizational competences and assets, are a growing feature of retailing, aided by implementation of principles of relationship marketing and facilitated by enhanced communication capability. There are three main types of strategic alliance:

1. *Loose relationships:* Collaborative networks and alliances to exploit a market opportunity or to combat a market threat. Examples are buying groups such as the WorldWide Retail Exchange (WWRE) and GlobalNetXchange (GNX). The WWRE acts as an independent organization operating on behalf of a large number of major retail members, such as Kingfisher and Tesco, with the aim of improving cost efficiency (McGoldrick,

NOTES

2002). GlobalNetXchange, a similar operation, operates on behalf of another group of large retail organizations, including J. Sainsbury and Carrefour.

2. *Contractual relationships:* Subcontracting of licences and franchises. The former is where the right to produce or distribute a product is granted for a fee; the latter involves a contract to a franchisee to produce, distribute or sell merchandise or services, while the franchisor maintains and markets the brand. In-store franchising (or concessions) is where a retail or service organization leases floorspace within an existing store format such as a superstore or department store.

   There are four main types of franchise:

   (*a*) *Manufacturer—dealer.* In this relationship the manufacturer is the franchisor and the dealer sells to the consumer. Cars and petrol manufacturers have traditionally used this method of distribution.

   (*b*) *Manufacturer—wholesaler.* The manufacturer is the franchisor while the wholesaler acts as franchisee, selling to retailers. Examples are cola and beer manufacturers.

   (*c*) *Wholesaler—retailer.* Voluntary chains such as Mace and Spar are examples. The parent organization offers marketing, distribution and merchandising support.

   (*d*) *Business format.* The parent company allows the franchisee to sell its products or services, and provides an established format together with help and support in setting up business.

   Franchising allows rapid expansion through the utilization of the financial and human resources of franchisees, although there is some loss of control, together with concomitant reduction in costs, of implementing standards and procedures.

3. *Formalized ownership / relationshipsL:* Joint ventures and consortia where two or more organizations set up a jointly owned organization, to facilitate expansion or exploit a market opportunity. In many cases this may be the only feasible method of entering an international market, for example Wal-Mart's initial entry into Mexico and Japan, and McArthur Glen's entry into the UK with factory outlet centres. In Wal-Mart's case the 1991 expansion in partnership with Mexican retailer Cifra was followed 6 years later by acquisition. The Cifra name was replaced by Wal-Mart de Mexico.

1.24 UNDERSTANDING THE RETAIL CUSTOMER

Understanding Retail Concepts: An Overview

Retailing as we all would appreciate is essentially the marketing concept of a customer-centric approach to developing and implementing a strategy. The

NOTES

growth of organized retailing in India across lifestyle, groceries segments etc., through various formats like convenience stores, hypermarkets, discount stores, supermarkets and malls has created distinct consumer behavioural segments that is posing a major challenge for Indian retailers like elsewhere in the world. For the more astute retailers this presents significant opportunities to build the necessary competencies that can be leveraged for creating a viable business-consumer proposition. Thus demanding evolve best practices across all the aspects of retail operations from customer management at the front-end to vendor management at the back-end thus communicating a consistent image of what it stand for its customers. This brings us to the subject of understa nding retailing concepts to evolve a viable and incremental strategy. The retailing concept covers 4 broad areas which precludes strategy:

- **Customer Orientation:** Where the retailer studies consumer behaviour and buying trends and fulfills those needs.
- **Goal Orientation:** The retailer has clear goals and targets to achieve as per a given formulated strategy.
- **Value Driven Approach:** The retailer makes a careful study of the value of the goods to be sold and its perception in the consumer mind. Price and quality plays an important role here.
- **Coordinated Effort:** Every activity within the retail space is aligned to a goal to maximize efficiency in servicing the customer and deliver value.

1.25 RETAIL ACTIVITIES: FOCUSING ON CUSTOMERS

In order to fulfill the consumer needs, retailers undertake various business activities which add value to the offerings in their store.

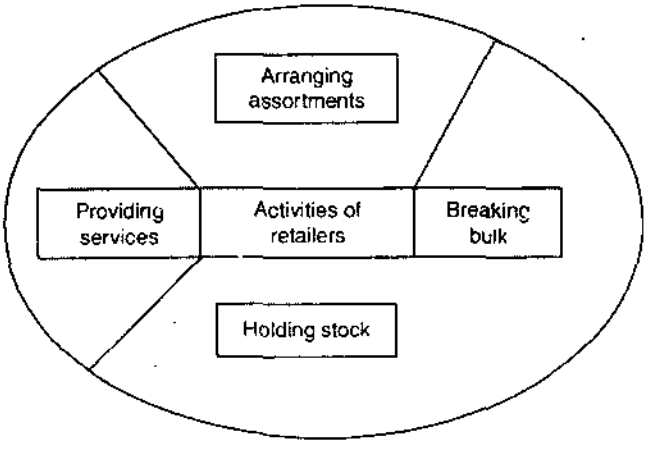


Fig. 1.13

Some of the major activities are given below:

Breaking Bulk: Breaking Bulk is believed to derive from the French word retaillerre, meaning 'to cut a piece off'. To reduce transportation costs,

NOTES

manufacturers and wholesalers typically ship large cartons of the merchandise, which are then tailored by the retailers into smaller quantities to meet individual consumption needs.

Holding Stock: Retailers also offer the service of holding stock for manufacturers. They maintain an inventory that allows for instant availability of the product to the consumers. It helps to keep prices stable and enables the manufacturer to regulate production. Retailers too benefit by keeping small; cock with an assurance of replenishment and can work within a budget for a month.

Additional Services: Providing product guarantees, after sales service and handling customer grievances are some, of the services that add value to the product at the retail point. Retailers fulfill orders, promptly process, deliver and install products. Sales people are also employed to provide additional information on the functionality and features, usage of the product being sold. Efficient customer service is essential to make the consumers feel comfortable and important.

Retail Customer Behaviour and Role of Services in Retailing

Inspite of the Internet making inroads in the shift of shopping behaviour, majority of the customers still prefer to purchase through stores. Stores remain popular because of the following basic reasons:

- Need to touch and feel the product prior to buying.
- It allows social interaction and the opportunity to compare brands at one place.
- It instigates impulse buying by the look and physical feel of the product such as chocolates, snack foods and magazines.
- Customers also look for ambience and convenience in shopping.

Consumer money drives the economy, and retail is where consumers spend their money-such as in boutiques, restaurants, discount stores, and e-tailers. Consumer shopping behaviour can be understood analysing factors such as demographic, psychological, or the lifestyle of the consumer.

Retailers are required to have better understanding of consumer benefits their perceptions and attitudes and how they influence the development of successful retail marketing strategies. Effective retailing requires an appreciation of the buying behaviour of consumers. Retailers must understand their consumers better so that they can both respond to and anticipate their needs proactively. Some of the major criteria for the right approach to a customer need are:

- Creating the right environment
- Listening to customers

- Providing rewards to frequent buyers
- Realising the lifetime value of a customer and ensuring loyalty.

The concept of life time value customers is employed in relationship building and marketing. The ongoing process of identifying and creating new value with individual customers over a lifetime of a relationship is termed as relationship marketing. This is important as it is much harder to attract new customers than it is to retain old ones. It is a blend of product, quality and services. Most of the prominent retailers such as Shopper's Stop, Pantaloon and a host of others emerging retailers now have loyalty programmes for their regular consumers.

NOTES

1.26 CONSUMER BEHAVIOUR PATTERNS

As you are aware that consumer behaviour follows no fixed pattern and is therefore very difficult to map. However it essentially encompasses, the study of how consumer makes decisions to use their resources like time, money and effort for buying, using and disposing goods and services.

In retail, marketers are keen to know the consumers shopping behaviour, which involves an understanding of decision variables like when where, and what to shop. These decisions variables are the factors to be considered by the retailer.

According to the consumer needs the retailer's evolve the best possible mix to attract the target consumer. The shopper's response to retail marketing mix has an impact on the firm's success in the long run.

Individual consumers consider each element of retail marketing mix in relation to their culture, attitude, previous learning and personal experiences. The consumer is influenced intrinsically by his/her needs, motives, perceptions, and attitudes and extrinsically such as family social class the culture and economic factors which affect his behaviour. These elements would help the retailers to place their retail marketing mix with their respective target segments.

It is important to know what and from where the shoppers shop and the reasons that prompt their shopping behaviour. Consumers buy products. Successful products are those that provide the tangible or intangible features necessary to realize the consumer's expectations of benefits.

Personal Factors

Personality is best defined in general terms; a general response pattern used by individual in coping with their environment.

NOTES

- **Role-playing:** Shopping activities are learned behaviour and are expected or accepted as part of ones position or role, for example if your parents have been shopping at a certain store then you would prefer to shop at the same store.
- **Diversion:** It can be a diversion for the consumer from the daily routine and is a form of recreation. A visit to a mall or a shopping center is a diversion shopping as it is not your usual shopping area.
- **Self gratification:** Shopping may be motivated not by the expected utility of consumption, but the utility of their buying process itself thus ones emotional state or mood may explain why or when someone shops.
- **Learning of new trends:** Shopping provides an individual information about latest trends movements and product symbols reflecting attitude and life style. When you go window-shopping you learn new trends and styles.
- **Physical activity:** It involves a considerable amount of exercise too when you go for a walk you would also complete your shopping.
- **Sensory stimulation:** Provides sensory benefits such as touch and feel of merchandise listening to the sounds (Music) and smelling scents. When you move around a store or a shop.

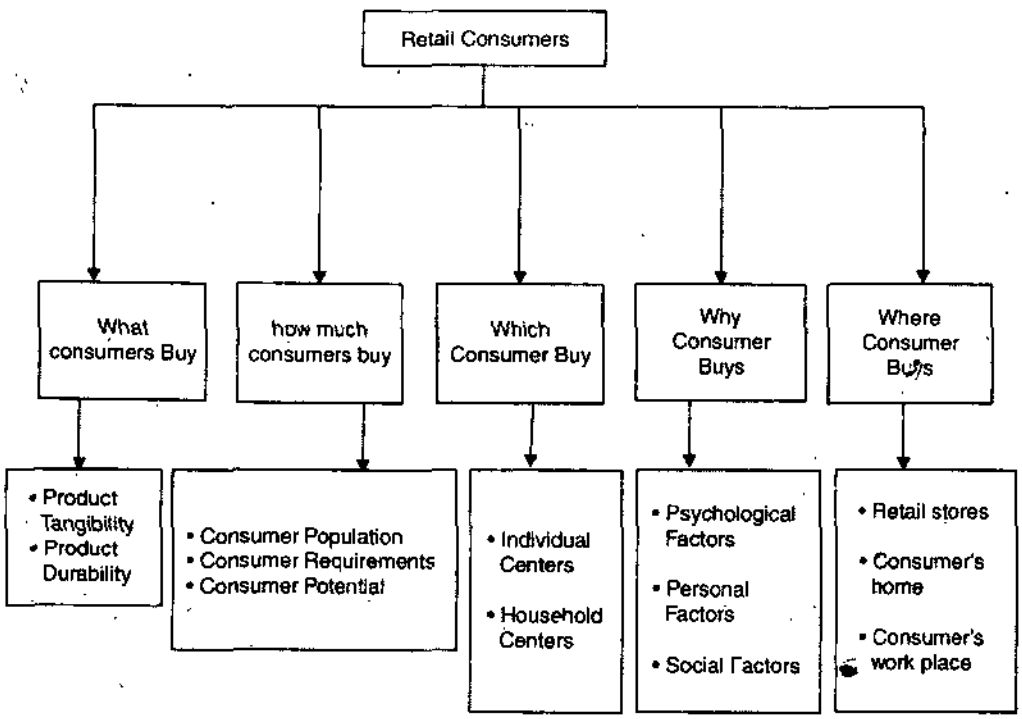


Fig. 1.14. *The buying behavior of retail consumers.*

NOTES

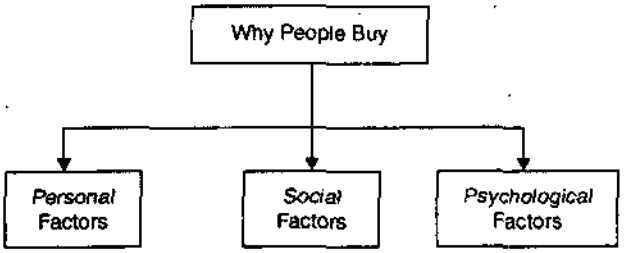


Fig. 1.15

Social Factors

Social experience outside home: It can help in seeking new acquaintances encounter with friends or just watching people around.

Communication with other's with similar interest: It also provides opportunity for interactions with other consumers or sales people to get to know more information.

Peer group attraction: Certain store may also provide a meeting place where members of peer group may gather for instance a visit to the local mall or shopping center to meet your friends or peer group.

Status and authority: Shopping provides an opportunity to attain status and power by being waited.

Pleasure bargaining: Shopping may offer the enjoyment of gaining a lower price through bargaining or comparison shopping or by visiting special sales offering discounts and rebates.

1.27 FACTORS AFFECTING CONSUMER DECISION MAKING PROCESS

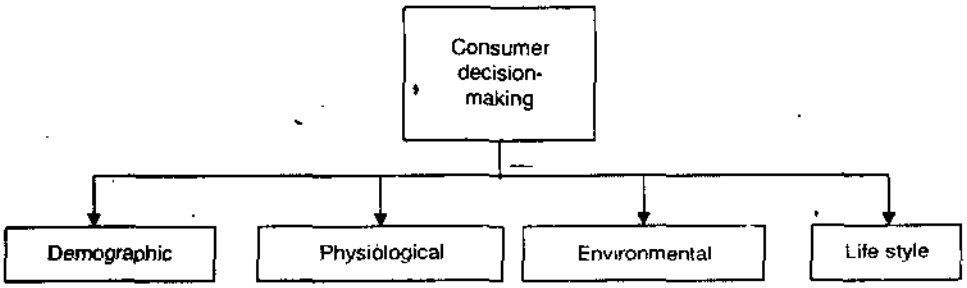


Fig. 1.16

A consumer's purchase decision tends to be affected by these four factors:

Demographic Factors: *Demographic factors are unique to a person.* It involves identification of who is responsible for the decision making or buying and who is the ultimate consumer. All stores have focused themselves on respective segments based on factors such as age, income family size, gender,

NOTES

occupation, etc. For example a designer store of garments is usually located in an up market shopping center or Mall. If this is in a low-income group residential area the store will not be viable.

Psychological Factors: Psychological Factors refer to the inner aspects of an individual. An understanding of consumer's psychology guides the retailer's segmentation strategy. Consumers respond differently towards the same retail marketing due to their respective motives, personality, level of involvement and attitude.

Motives: Motivation is prerequisite for any action this includes buying. It stimulates the need. If you have a headache buying a medicine is a motivation. The need to have the latest fashion in clothes, mobile phones etc., is also a motivation.

Perception: Perception is the process by which consumers attach meaning to incoming stimuli by forming mental pictures of persons, places and objects. Stimulus reception is accomplished through the five senses that is sight, sound, taste, touch and smell. The consumer feels that what he/she sees (hear, feel, taste and smell) is what they get.

Learning: Learning is the process of acquiring knowledge through past experiences. If you visit a store and the treatment you receive will be the criteria for repeat visits to the store. If the experience with the sales team was good then you may visit the store even if it is slightly more expensive than the store where the service was bad. Free sampling/trials etc., are also ways of making the consumer learn about a product and its attributes. If the customer sees, hears, feels, tastes or smells a product he/she learns more about the product and its attributes. A retailer must encourage a consumer to touch and feel the product so that his visit could turn into a buying experience. By offering customer satisfaction the retailer can be rest assured of having a loyal customer which is easy to retail than to generate a new customer.

Attitude: People use their attitude to pass judgment whether is it good or bad, right or wrong. If a customer feels that a store is expensive he/she will avoid going to the store. Reliability, stability, responsibility, dependability and credibility are the all strong messages that a retailer is required to project. Emotions are extremely important as this drives buying. Behavioral traits like:

- Workaholic
- Impulsive
- Self confident
- Friendliness
- Adaptability

- Ambitious
- Introversion
- Extroversion.

Can be used as measure to represent consumer buying behaviour.

NOTES

Environmental Factors: Environmental factors are both physical and social factors. This includes physical objects (goods and outlets), spatial relationship (location of shopping center and merchandising stores) and social factors (reference groups and opinion leaders). The environmental factors influence consumer wants, learnings, motives etc., which in turn influence affective and cognitive responses and therefore shopping behaviour of the individual.

Social Class: Social class is referred to as the classification of members of society into a hierarchy of distinct status and class. Social class is measured by variables such as education, occupation, wealth, and ownership of assets. Market research has established a link between social class and consumer attitudes concerning shopping behaviour.

Middle class and higher sections of society prefer to shop for grocery items once a month from a particular shop. They usually prefer stores offering variety and range of choice. Lower sections of society usually purchase on a daily basis. They are also not particular about the shop they purchase from.

Social status of an individual plays an important role even in determining the frequency of purchase. Majority of the middle class consumers prefer to buy vegetables in the morning for their freshness despite the prices being on the higher side, on the contrary the lower end sections of the society prefer to buy at dark to get benefit of low prices.

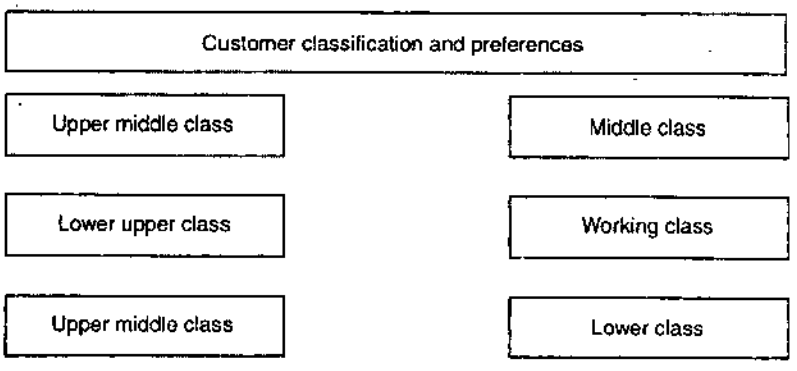


Fig. 1.17

Lifestyle: Lifestyle refers to an individuals way/style of living as determined by his/her activities, interests and opinions. Lifestyle is considered to be highly correlated with consumers values and personality traits.

An individuals lifestyles is influenced by the social group he belongs to and his occupation or *e.g.,* double income no-kids (DINKS) families in metros

regularly shop at super malls because of limited time at their disposal and they also look for entertainment while shopping on weekends. Besides they are heavy spenders when compared to families with single income.

NOTES

1.28 STAGES OF CONSUMER DECISION PROCESS

The Consumer Decision-making Process

Imagine having to buy yourself a new cell phone. The first step in this process is of course to recognize that you need a new cell phone. Though you may have an idea of which phone you would like to purchase, you probably want to do some research in order to narrow down a few alternatives.

You go online to investigate manufacturers, resellers, and independent consumer organisations, you ask friends and colleagues for advice, and you visit a few stores to check yourself. You compare you options and finally decide to purchase what seems to be the best alternative, based on different criteria such as design, features, price, and trustworthiness of the supplier. Once you have the phone in you possession, you assess whether it lives up to your expectations. You might find that the phone is able to deliver what the manufacturer has promised, but the user interface seems to mismatch, and therefore you decide not to buy this brand in future. The decision-making process can be described in five different stages:

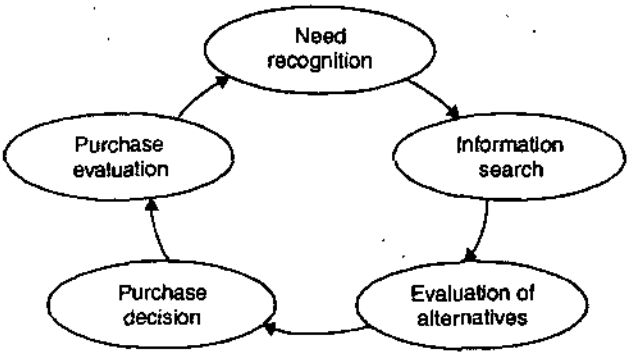


Fig. 1.18

Depending on the consequences of making a wrong decision, the complexity of this process can range from careful analysis to pure impulse. While an impulse buy, such as buying a packet of chewing gum, can take place instantaneously, complex purchases mostly stretch over a long period of time.

This buying process is an iterative process, where people collect information from different sources and repeatedly return to re-evaluate and compare the information they have found. By understanding customer needs and concerns as they progress through the decision making process, marketers can build

better and more successful retail marketing mix. In the retail context, a marketer is concerned about shopping decisions such as when, what, how and from whom the consumers purchases and the frequency of purchase. Post purchase behaviour may take the form of cognitive dissonance.

NOTES

1.29 TYPES OF CONSUMER DECISION-MAKING PROCESS

The Customer Sieve and Online Retailing

The Web as you will agree has turned out to be a great tool for information research, and studies show that the Internet is becoming the primary means by which people get key information. This counts for commerce in particular. People expect to be able to find information about products they are considering buying, even if a company doesn't sell its products online. Considering peoples' high expectations about the information and services available online, it's disturbing to see just how bad commerce web sites are at selling.

Researchers have discovered that the online buying process acts as a sieve, where customers are inadvertently filtered out at each stage of their decision-making process. Studies show that out of 100 purchase-ready customers completely intended on buying a product, only 34 will accomplish their goals. "Commerce sites simply fail in supporting the consumer decision-making process, by not taking their customers' information needs into account"

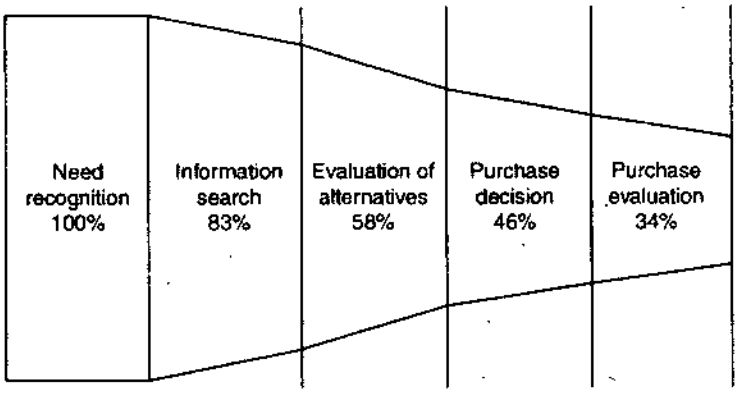


Fig. 1.19

At the information search stage, 9% wasn't able to find the products they were looking for because they couldn't identify the right product category or find product options using the search facility. 8% of the shoppers who succeeded in finding products gave up because the product lists didn't provide' enough information to identify purchase options, or because they were confused by going back and forth between product lists and product description pages in order to decide if the products would fit their basic needs.

NOTES

Researchers found that the major problems occur when customers want to evaluate their product alternatives. Only 25% of the shoppers who reached this stage proceeded to the next. Some stopped because they realized that none of the products would fit their needs, but most because the product information was so inadequate that they couldn't tell if the products they were interested in satisfied their needs.

At the purchase stage, 13% dropped out because they didn't want to go through the required registration process or because they where disappointed by poor shipping charge policies.

A-surprisingly high amount of problems appear in the purchase evaluation stage. 11% of the shoppers are either so unhappy with a product that they return it, or didn't receive the product at all, or got the wrong product. Some of the shoppers returned a product because it wasn't what they expected, which suggest a failure in setting up the right expectations in the product evaluation stage.

Knowing the Customers' Decision-making Process

The most interesting thing about consumer decision process, is that while critical usability problems do exist in the design of the commerce site, such as users not being able to find products and bad design of checkouts, the majority of dropouts happened because of inadequate product information:

- Customers couldn't identify purchase options from the products list.
- Customers couldn't decide if the products would satisfy their needs.
- The product presentations and descriptions raised wrong expectations—which made customers return their purchases.

Commerce sites simply fail in supporting the consumer decision-making process, by not taking their customers' information needs into, account.

Designers of commerce web sites, have little chance of knowing exactly which information needs customers have when evaluating specific products. To support the customers' decision-making process, they have to do research in order to learn which needs and concerns they have when making a purchase decision.

Research of customer needs can be done in several ways. An effective and economical method is to collect information during a workshop with salespeople who are in contact with customers on a daily basis. Generating user profiles and scenarios is a great way of collecting this information. With a more extensive budget, interviews with customers and observations of their shopping behaviours can be conducted, in order to validate the generated profiles and scenarios.

No matter how we choose to conduct our research, there are some basic things we need to know about the customers in order to be able to support their decision-making process.

NOTES

Information Search Online

The basic prerequisites for customers to make their way through the information search stage are that they are able to find products and that they can easily identify purchase options from the product list pages.

Thus, in order to support the customer decision-making process at this stage, we need to know:

- Which words will customers use when browsing and searching for purchase options?
- What basic information do customers need in order to identify purchase options?
- What educational information do novices need in order to decide which product criteria are important to them?

Evaluation of Alternatives

The problem at times with consumer decision making process is that there's no one to ask if you have a question. We see how a large number of customers drop out at this stage simply because the product information was so inadequate, that they couldn't decide whether the products they were interested in would fit their needs. A commerce site for online decision making process should act as a skilled offline salesperson, and have answers ready to any question or concern that the customer might have.

Some of the critical questions that we need answers to are:

- What detailed product information does the customers need when evaluating product alternatives?
- Which product evaluation criteria will customers use and which are most important to the customers?
- Which concerns will the customers have about the products and how can we address them proactively?
- How can we encourage customers to contact the sales and support department if they have further questions?

Purchase Decision

At this stage emphasis should be on providing the easiest possible way for the customers to carry their orders through. If the products are sold online, we should remove obstacles such as poor registration, exorbitant shipping charges if any. If products are not sold online, customers would want an easy way to find out where and how to buy, or an easy way to contact the sales department.

Purchase Evaluation

The outcome of the post-purchase evaluation stage is a level of customer satisfaction or dissatisfaction, which is determined by the customer's overall feelings about the product and buying experience.

NOTES

Besides not receiving the product at all or getting the wrong one, many customers returned their purchases because the products didn't live up to their expectations. This problem is a consequence of not encouraging accurate customer expectations at the product evaluation stage. In order to avoid this, we have to make sure that the content presenting the products set up the right expectations.

Designing for Customer Decision-making

Once we feel confident about customers' needs and concerns, our next challenge is to decide how to present the information to the customers in a way that supports the decision-making process. Some products will benefit from comparison charts, some from interactive product demos, some needs lots of detailed product images.

Role of Services in Retailing

Though shopping over the phone and through the Internet have increased rapidly in the past few years the majority of Indian consumers still visit stores to shop. The location of the store is also important in the consumer decision process in the retail domain. Since consumers are attracted to a particular store, retailers deed to track amenities of parking, extended hours of operations, special play areas for children, wash rooms, trial rooms etc. Besides efficient customer service is required to make the customer feel comfortable and important.

Example: Foodworld supermarkets provide home delivery to consumers if the purchase bill is above ₹2000/month.

Thus, on the basis of the nature of decision one can classify the purchases into three categories:

Routine buy: This refers to those transactions where the buyer reorders from a regular store without any modifications and on a routine basis. For instance, newspapers, bread, milk and high frequency items are purchased from shops in the vicinity.

Modified rebuy: This refers to those transactions where buyers want to modify product specifications, prices terms, or suppliers. It usually involves more time and information. For example if a particular store does not have the product a consumer wants, he/she may seek advice from the retailer concerned. Incase he does not give credence to the retailers advice, he may start information search online or other sources to shortlist his purchase decision.

New product purchase: This refers to those transactions where a consumer purchases a product or considers visiting a retail store for the first time and therefore require extensive information to evaluate the decision-making process.

Further, on the basis of the effort required for purchase or the level of involvement, one can categorize the nature of consumer decision-making into the following four levels:

- Extensive decision-making/problem solving
- Routine response
- Limited decision-making, and
- Impulse buying.

These four levels are strongly correlated to the kind of product that is purchased. The 4 levels of consumer decision-making are depicted in the figure below:

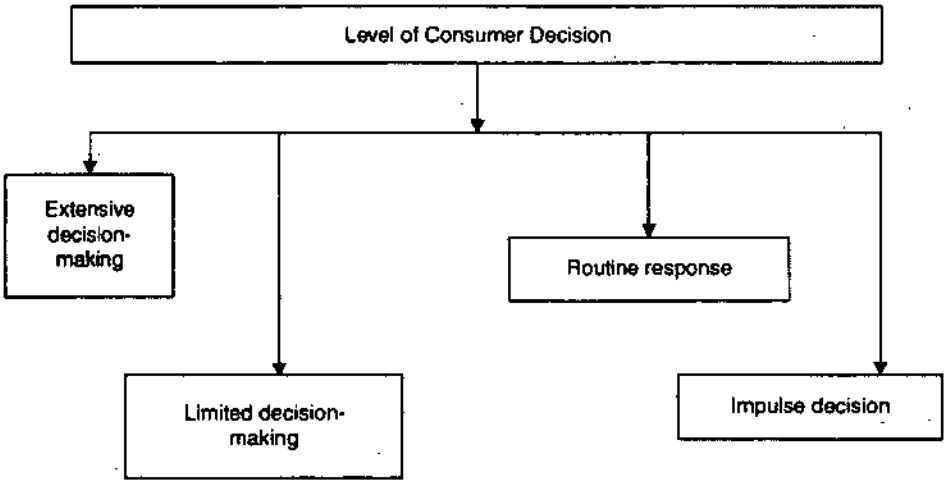


Fig. 1.20

Extensive Decision-making/complex High Involvement

This usually happens for unfamiliar, expensive and infrequently bought products examples include purchase decision for cars, homes, computers and education. For such transactions, an individual has to spend a lot of time seeking information. The information sources one uses for such purchase are mass media, friends and relatives, store personnel etc. For such decisions consumers go through all stages of the buying process.

Limited Decision-making

We happens when an individual purchases a product occasionally and is required to look for a different brand or retailer for a product one is used to because of non availability or non-performance.

Example: Clothes, utensils, crockery-essentially where the consumer is aware of the product class and not the brand.

NOTES

Routine Response/Programmed Behaviour

This is observed in case of low involvement frequently purchased and generally low cost products. They require little search and decision efforts and are purchased automatically.

Example: buying grocery items from a particular retailer.

Impulse Behaviour

This relates to those purchases that do not involve any conscious panning. Examples are soft drinks which occur due to sighting of the advertisement or the product at the outlet. A particular product does not confine itself to one category of decision-making bebaviour product can shift from one category to the next. For example selecting a restaurant for dining out for someone not used to it may involve extensive decision-making, but on the contrary it would be a limited decision-making for someone used to frequent dining out. Therefore most of the eating joints locate their outlets at all possible destination shopping centers.

Consumer Decision Rules

Consumer decision rules as you need to understand are basically guidelines for any retailer to help tune his service/product proposition. They are classified into two categories, namely compensatory and non-compensatory.

Compensatory Decision Rule

On the basis of compensatory decision rule, a shopper evaluates score or brand after scores in a considered set.

Example: On the basis of research study while selecting a restaurant a prospective consumer will select 'Haldiram' in comparison to 'McDonalds' and 'Bikaner' on several counts of features desired as shown in table below:

Compensatory evaluation of restaurants

Features	*McDonald's*	*Haldiram*	*Bikaner*
Cuisines available	5	8	8
Service	8	6	7
Price	7	9	8
Distance	7	8	4
Atmosphere	5	5	6
Total	32	35	33

Non-compensatory Decision Rule

This rule does not allow consumers to balance positive assessment of stores on one dimension against a negative evaluation on other dimensions. Taking

the previous example: incase of restaurant selection, negative rating on atmosphere (Haldiram) would not be offset by the positive assessment of its merchandise mix (cuisines). That is to say that a consumers choice of restaurant if preset on variety of cuisines would have dropped McDonald's out of the reckoning in this form of decision process.

NOTES

1.30 INFLUENCE OF SITUATIONAL VARIABLES ON SHOPPING BEHAVIOUR

Situational variables as you need to understand refer to all those factors particular to, a time frame and place of observation which do not follow from a knowledge of personal (intra individual) and stimulus (choice alternative) attributes.

Such attributes range from store location and layout to time of day and the presence (or absence) or others. These can be classified into four distinct *dimensions of situational influence:*

1. Physical setting
2. Social setting
3. Temporal setting
4. Task definition.

Physical Setting: The physical setting covers geographical location of the retail outlet but can also mean the environment in which the consumer *resides to access the shopping center. There are 'far shoppers' i.e., those* who travel for more than half hour to reach the destination shopping point and 'near shoppers' who take less time to travel there.

At the same time there are late shoppers who shop in the late hours of the day and early shoppers who take the morning ride to the retail outlet.

Social Setting: The social setting describes the presence or absence, together with their social roles, role attributes and opportunities of interaction. The shoppers who are accompanied by others are referred to as 'social shoppers' and those who shop alone are designated as 'solitary shoppers'.

Temporal Aspects: This refers to the constraints such as time available for shopping and factors such as seasonal variables which is particularly visible in the context of both fashion shopping and perishable purchases such as milk purchased normally at day time and fashion apparel at the later part of the day.

NOTES

1.31 CONSUMER IMAGES OF RETAIL STORES

A consumers image of a store is the summation of his attitude towards various aspects of the store. Every retail store has an individuality that differentiates it from its competitors. A retailer must devise strategies to communicate it's individuality across its target segment of consumers to build confidence in its merchandise and services. It is argued that where there is some degree of congruity of an individuals self image of a store or brand there is a strong possibility of positive behaviour towards the store.

Retail Image Dimensions

To measure the image of a retail store, it is essential to identify and aggregate the relevant consumer attitude to the merchandise displayed, sales force deployed, location of store and the price levels of the goods to be purchased.

The dimensions which shape relevant consumer attitudes for a retail store are:

1. Locational convenience which covers the following determinants:
   - Access routes
   - Raffic barrier
   - Travel time
   - Parking Availability.
2. Merchandise suitability:
   - No of brands stocked
   - Quality of line of merchandise
   - Breadth of assortment
   - Depth of assortment
   - No of outstanding departments in the store.
3. Price points:
   - Price of item
   - Price of same item in other store
   - Trading stamps or coupons and discounts.
4. Sales force and service:
   - Courtesy of sales force
   - Reliability of advertising and match with attributes

NOTES

- Billing procedures
- Adequacy of credit arrangements
- Delivery promptness and care
- Eating facilities in store.

5. Congeniality:
   - Development
   - Store layout
   - Store decor
   - Merchandise displays
   - Class of customers visiting store
   - Store traffic and congestion.
6. Post transaction satisfaction:
   - Satisfaction with goods in use
   - Satisfaction with returns and adjustments
   - Satisfaction with price paid
   - Satisfaction with accessibility of store.

Retailers, can thus deduce the understanding of the store image by their target segment(s) by devising or revising their corporate objectives and store operation.

Example: McDonald has positioned itself as a 'family restaurant' whereas 'Big Bazaar' as a discount store overcame the image of discounted items being second ate with the quality line of 'sabse sasta sabse accha' brand recognition.

1.32 A SAMPLE OF CUSTOMER PROFILE AND ANALYSIS

Customer profiles are generated through consumer research which helps a retailer in defining the target consumer segment and acquiring them by asking the following basic questions:

- When do customers like to shop?
- When do consumers like to pay credit?
- What quality of merchandise customers prefer?
- What appeals to a customer in terms of layout?
- Who does most of the buying in homes of consumers?

NOTES

- What is the income level of my average customer?
- How does the—consumer react to promotional activities and new and different merchandise?

1.33 SUMMARY

- Ronald R. Gistl "Suggested a conceptual framework, using margin and turnover, for understanding the retail structure and evolving a retail strategy."
- This operation is based on the premise that distinctive merchandise, service and sales approach are the most important factors for attracting customers.
- Increasing the efficiency of business processes is a very important part of retailing today.
- Despite the changing environment, successful retail organizations tend to have a clear direction, or mission, which is really a rationale for the existence and progress of the company.
- Retailing as we all would appreciate is essentially the marketing concept of a customer-centric approach to developing and implementing a strategy.
- Efficient customer service is essential to make the consumers feel comfortable and important.

1.34 REVIEW QUESTIONS

1. What do you understand by retailing?
2. What is the significance of retailing?
3. Discuss retail strategy and structure.
4. Discuss retailing formats (classifying retail firms).
5. Discuss the retail dynamics of India.
6. What are different Government Policy and Infrastructure for retailing?
7. What are the different advancement in technology in retailing?
8. Discuss Customer Relationship Management (CRM) Systems.
9. Discuss strategic planning process.
10. Discuss SWOT analysis.
11. In what ways the knowledge of consumer behaviour is essential for the success of retail strategies?
12. What are the factors that influence consumer behaviour in retail banking?

13. What are the stages of consumer decision-making and its impact on retail strategies? Specify with an example.
14. What are the types of decision-making processes? Explain with an example.
15. Discuss the factors which affect the nature of consumer decision-making?
16. State the influence of situational variables on shopping behaviour in a planned shopping center?

NOTES

1.35 FURTHER READINGS

1. *International Retailing*, Nicholas Alexander and Anne Marie Doherty, Oxford University Press, 2009.
2. *Managing Retailing*, Piyush Kumar Sinha and Dwarika Prasad Uniyal, Oxford University Press, 2007.
3. *The Art of Retailing*, Lamba, Tata McGraw-Hill, 2002.

UNIT 2 FORMATS OF RETAILING

NOTES

★ STRUCTURE ★

NOTES

2.0 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- describe the non-store based and other forms of non-traditional retailing.
- explain the targeting customers and gathering information.
- discuss about the trading are analysis.
- know about the store design and layout.
- what is visual merchandising and atmospherics?

2.1 INTRODUCTION

The term Retail Format refers to the basic structure of a retail business conceived, designed, and developed to cater to the needs of the end customer. Retail formats come in a whole variety of shapes and sizes. These can be quite different in terms of the ownership of retail business itself, the characteristics of the premises used and the orientation of the product range. Some types of formats have been in existence with us for over a century, while new kinds of retail formats are fast emerging and developing, offering the customer a constantly evolving choice of shopping arena, which embraces an enormously wide range of businesses. You may kindly refer to unit 1 of this course for more information on retail formats.

2.2 CLASSIFICATION OF RETAIL FORMATS

Retail formats can be classified as below:

- Traditional Retail Formats vs. Modern Retail Formats
- Store Based Retail Formats vs. Non Store Based Formats

2.3 TRADITIONAL RETAIL FORMATS: STORE-BASED STRATEGY-MIX

Includes the following formats, which are quite familiar to all of us.

- Kiranas and Independent stores, the traditional mom and pop stores.
- Kiosks.
- Street Markets.

NOTES

Traditional retail formats have long been part of the retail landscape of India. The above mentioned formats are typical of the unorganized retail sector across product categories. Independent and kirana stores have emerged with the spread and density of population.

Historically, they are traced to the generation of surplus agriculture that needed to be sold to obtain other essential commodities by the producer. These are family-owned stores represent the retail business in India. These are usually shops with a very small area, stocking a very limited range of products varying from region to region according to the prevailing needs and demands of the customers. About 78% of such retail stores are small family-owned businesses utilizing only household labour. The retailer offers credit facilities depending on the size of the business and seeming credibility of his customer. These are low cost structures, mostly owner operated, have minimal or no real estate and labour costs and little or negligible taxes to pay.

Kiosks, are those category of low lost small time retailers like tea stalls, snack centers, barber shops, pushcart and Mobile vendors. Street markets are a common sight in every location big or small catering to all including the floating public. Convenience and location are the major factors for their popularity.

2.4 MODERN RETAIL FORMATS: EXTERNAL STORE AND INTERNAL STORE

You would-agree and also appreciate that modern retail formats and store based formats are one and the same. Each of these stores have an entity of its own to cater to. Model retail formats include the following:

- Department Stores
- Variety Stores
- Supermarkets/Hypermarkets
- Convenience Stores
- Discount Stores
- Catalog Shops
- Factory Outlets
- Company Owned Company Operated.

Department Stores

These are the oldest form of large store concept. Traditionally offers a collection of personal and home furnishings goods under one roof to an increasingly demanding middle-class customers. It is a multi-level store format usually

between 2–5 stories which are segmented into clearly defined areas according to the product category.

Variety Stores

NOTES

Basically an American concept a tried and tested formula now slowly started picking up in India too. This format offer a large variety of goods under one roof, including both food and non-food items. The variety store differ from departmental store in the following aspects:

Product Range

- Prudent range is wide and include clothing food, home furnishings.
- High proportion of own-branded product.
- Not much choice in product categories.

Store Environment

- Basic format
- Uncultured
- Clearly laid out
- Usually over one or two floors
- Straight forward approach to product display
- Self service.

Prices

- Medium to low
- Value driver.

Supermarkets/Hypermarkets

A highly successful retail format imported from USA in the middle of twentieth century. The success is attributed for the advantage of offering self service, and therefore a much faster method of shopping, especially for those shoppers for whom time is scarce commodity. In addition, the space and labour saving factors allowed retailers to offer a wider choice of products at lower prices.

The major benefits of this retail format are:

- Allows the customer to get involved with the product,
- The ability to peruse the product offering,
- Try new products and impulse purchase,
- Appeals to the increasingly rich.

In view of the above advantages both for the marketer and the buyer, the supermarket concept was quickly adopted as a principal method for acquiring

NOTES

everyday goods. Supermarkets now play dominant role in the retail industry. These supermarkets have further grown into superstores offering more and more products, adapting to change in lifestyle to provide the most convenient way to shop for household goods for the bulk of households.

Supermarkets, superstores and hypermarkets can be considered in the same family of retail format.

Convenience Stores

- The criteria applied to this store based format is:
- Self service
- 1000–3000 sq. ft selling area
- Parking facilities,
- Open 7 days a week for long hours
- Wide range of products, with limited brand choice
- OTC medicines
- Toiletries etc.

In India, such long hours convenient stores are found at fuel stations which are and managed by the respective leading oil marketing companies. Other possible areas are bus terminals, airport lounge, and highways and host of other locations.

Discount Stores

As the name suggests that this retail format's key characteristic is the price of the merchandise offered by the store, which is subject to individual customer perceptions. By and large a discount store is a retailer that sells merchandise at a price level that is lower than the 'typical high-street stores'. It is customary that the discounter uses an everyday low pricing policy.

Catalog Shops

These retail formats are fast emerging in the Indian scenario specifically by the major importers of furniture who resell the product locally. These are sometimes referred to as catalog showrooms.

The basic design is that a very little product is displayed in the outlet in comparison to the range as a whole, but informative catalogs are available for customers to browse through if they wish to. Having decided the product the payment is made and the customer waits for a while for till the desired product is retrieved from the warehouse which is attached to the showroom or store front.

The major demerit of this format is in terms of product interaction and display, because of the dependence on the catalog for decision-making.

NOTES

Factory Outlets

To a large extent this format is similar to that of a discount store. The outlet offer customers a range of seconds-quality/or previous season's stock. The major advantage is that it helps the manufacturer to dispose off unwanted merchandise without damaging the image of the main product or retail brand, which otherwise occupies large storage place with funds locked in for a long time. From the customers perspective they have an advantage to access certain brands which might not normally be able to afford the brands. These outlets are a common sight either next to the factory premise, and now a days you can see them in dozens on the outskirts of major cities and towns.

Company Owned Company Operated

These retail outlets are scattered across the length and breath of the country Bata, outlets are a classic example and also some of the government controlled textiles showrooms, state emporia and similar such retail outlets of different product categories.

2.5 TYPES OF CHAIN STORES IN CONTEXT THE INDIAN CONTEXT

Besides, franchising the other major retailing format that became popular in the Indian context is the multiples, which are better known as "Chain Stores". There were about 1800 chain stores in the year 2002, which are now growing in leaps and bounds. These chains are predominant with respect to some important product categories such as:

- Food
- Health and Beauty Products
- Clothing and Footwear
- Home Furniture and Household goods
- Durable Goods
- Leisure and Personal goods.

Food Chain

If you closely observe there are a variety of retailers operating in the food retailing sector. This is true considering the enormous size of the market for food. However, traditional types of retailers, who operate small single outlet businesses mainly using family labour, dominate this sector. In comparision, supermarkets account for a minuscule proporation of food sales. This is for

NOTES

the simple reason that these outlets have a strong competitive strengths which include low operating costs and overheads, low margins, proximity to customers, long opening hours, and additional services to customers (home delivery).

Nevertheless, supermarkets sales also expanded at a much higher rate than other retailers. This is because of increasing number of higher income Indians prefer to shop at supermarkets because of convenience, higher standards of hygiene and the enticing ambience.

Health and Beauty Products Chain

With rise in income and the urge to look good and maintain sound health made Indians spend a considerable amount on health and beauty products. As in case of other retailing sectors, small single-outlet retailers also dominate sales of health and beauty products. However, in the recent past a good number of retail chains specializing in health and beauty products have sprung up. Currently they account for a reasonably good share of sales of these products. However, as Indians spend more on such products in future, their business will undoubtedly expand substantially and grow exponentially with more scope for new entry of such chains.

Clothing and Footwear Chain

There is no city in India, where you do not find a clothing and footwear outlet. These outlets are omnipresent particularly in shopping centers and markets. You generally find a mix of traditional and modern stores. Traditional outlets are characterized by size and cramped with little emphasis on attractive displays. These outlets basically stock a limited range of cheap and popular items. In contrast, modern stores are spacious with sample products attractively displayed in windows, sometime with mannequins. Similar to food retailing, there are also innumerable number of retail outlets selling clothing and footwear in makeshift stalls or on pavements. The rock-bottom prices offered by these category of sellers which are much lower than the prices offered by branded products make them attractive to large number of customers.

Home Furniture and Household Goods Chain

The home furniture and household goods retailing sector in India is predominantly belong to the small retailers from the unorganized sector. Despite the large size of this market very few modern and large retailers have established specialized stores for these products. Looking at the increase in income levels and the changing life styles of consumers there is a considerable potential for the entry of specialized retail chains and it is

likely that this possible in the next couple of years. It may be noted that at present a few leading brands are imported and sold in the Indian market.

NOTES

Durable Goods Chain

We have witnessed a large number of foreign consumer durable companies into the Indian market during the 1990s. Thank, to the governments decision of inviting foreign investment and import policies. This move has transformed this sector dramatically. A much wider variety of consumer electronic items and household appliances became available to the Indian consumer. Competition among companies to sell their brands provided a strong impetus to the growth for retailers operating in this sector.

Leisure and Personal Goods Chain

A sharp rise in household income due to economic growth spurred consumer expenditure on leisure and personal goods in India. It is very common to see specialized retailers for each category of products in this sector. A few retail chains has emerged particularly in the retailing of books and music products in almost all the metro cities and other major cities and towns in the Indian scenario.

2.6 NON STORE RETAILING

Non store retailing occurs when a firm uses a strategy mix that is not store based, to reach customers and complete transactions. A non store retailer does not utilize conventional store facilities. Non store retailing has been growing much faster than store retailing. Traditional store retailers are facing increasing competition from catalogs, direct mail, telephone, TV home shopping and the internet. By the year 2010, it is expected that over 12% of global retail sales, will be through non store formats.

2.7 TYPES OF NON STORE RETAILERS

The major types of non store retail formats are: (*a*) e-tailing or Electronic retailing or Internet retailing (*b*) Catalog and Direct Mail retailing (*c*) Direct selling (*d*) TV Home shopping and (*e*) Automatic vending machines, as shown in Figure 2.1.

NOTES

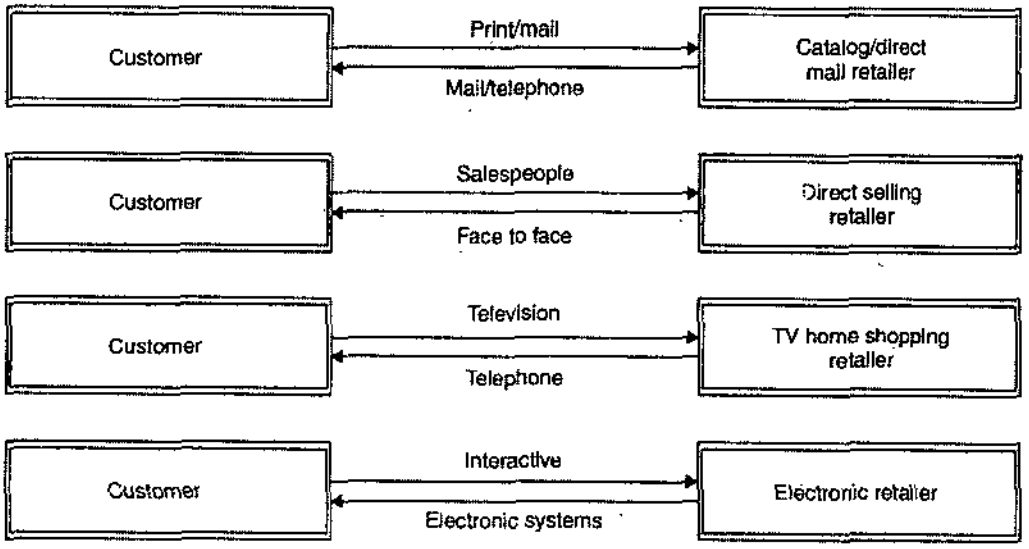


Fig. 2.1

2.8 INTERNET RETAILING

This is a retail format in which retailers communicate with customers and offer products and services for sale over the internet. The internet is challenging the existing retail models found in traditional bricks and mortar businesses. As a means of expanding existing market share, entering new markets, forging alliances with business partners and taking customer relationship to a new and unprecedented level, e-business is an unparalleled tool. With better availability and less expensive access to the internet, its usage is set to explode over the next few years.

Therefore, for a company to survive the internet age, it needs to find new ways to provide the same traditional services and satisfy changing customer needs. By the year 2005, two hundred fifty million, new users will be connected to the internet. The World Wide Web **(www)** has made it possible to extend electronic links to customers of traditional in store and non store formats (some of the earlier non store channels included, mail order services, in home shopping and automatic vending etc). One of the first innovators in **virtual retailing** was Comp-U-Card, which changed its traditional face-to-face model into a virtual one. Electronic links to suppliers have created a virtual inventory and a web site has created a virtual store front. When internet transactions are tightly integrated with back end office systems, the retailer can provide better service to customers while reducing the cost of operations. Electronic retailers range in size from Amazan.com with over $3.0 billion annual sales to niche players such as www.dilmatea.com which sells tea from Sri Lanka. A large number of traditional retailers have

incorporated e-tailing into a multi channel offering that provides value to customers.

NOTES

A New Retailing Model

In a store environment the core retail functions are delivered physically through sales people, product packaging and product placement. As a result the retailer has to choose between "richness" (depth of product selection, customer relationships, information, content, interaction and customization) and "reach" (scope of customer base-how many customers and what type).

E-tailing allows retailers to strip out information from the store setting, thus breaking down traditional retail-value chains and forcing the restructure of physical activities and information to create a completely new model of retailing. Such a model has the capability of providing both, "richness" and "reach" simultaneously. In the absence of physical, constraints on online space, new products, product information, customized layouts and offerings, marketing campaigns etc; can be added at a low marginal cost. A growing number of new customers and even old customers can be served with relatively limited investments. All this allows the Internet retailer to meet the needs of customers, more easily and faster than off line retailing models. The on line business to consumers (B2C) market is in the very early stages of development. While the current market is small, the growth has been truly phenomenal. One of the major factors for this dramatic growth is that, the cost of putting a business on line, has reduced considerably.

Advantages of E-Tailing

An online retailer is in an excellent position to increase the breadth and depth of customer relationships. This in turn will lead to a better understanding of customer preferences and behaviour and enable the retailer to become even more effective in personalising, cross selling and moving shoppers up market to increase sales. Establishing a strong **brand** is critical to the success of an on line retailer. To create a strong brand, the e-tailer has to go beyond advertising. The business has to ensure and deliver flawless experience to customers at all points of contact. This includes everything from the number of 'webpage' views required to reach the product catalog, to fast and accurate fulfillment. For, multichannel retailers, this means creating consistency across channels. A large number of retailers are beginning to focus their marketing and advertising efforts, off line to build their brands to drive traffic, conversion, loyalty and sales.

Internet retailers have the unique advantage of tracking traffic on their websites. This enables the retailers to be able to understand the value of their offline marketing efforts and receive immediate feedback on their sites. Businesses that constantly monitor their traffic patterns will be able to shorten

NOTES

the marketing learning curve to divert marketing and promotional expenditure on the most efficient mechanisms and implement site **changes** that have a direct impact on the quality of the consumer experience.

Another major advantage that on line retailers have, is **contextual marketing,** particularly at the point where the impulse to buy is created. Contextual marketing is when marketers target users on the content of the advertisements that appear on a web page. This form of marketing focuses on visitors to a website, based on the context (navigation path, search interest etc.) of their visit. Contextual marketing converts visitors into buyers, by presenting them with content (ads, messages, offers) that align with their interests. Retailers can buy advertisements through vendors like, Google Adsense, Vibrant Media or Site Brand and a host of others.

Contextual marketing opens up opportunities for companies that, for various reasons can not perform the on going digital relationships, which are the life blood of a successful website- for example, makers of packaged goods, single product companies, and infrequent service providers.

E-tailers can convert on line **surfers** to **customers,** by making the self directed purchase process, comprehensive and convenient. Convenient sites are those that make it easy for people to move swiftly through the shopping process and encourage them to return.

Barriers to Growth

Generating sales and income, online is not always a certainty. Some of the barriers to growth facing e-tailers are as follows:

1. **Security Fears:** A lot of on line customers apprehend encroachment on their privacy and security relating to credit card transactions on the net. Hence on line retailers need to improve convenience and value for customers to overcome these fears.
2. **Technology Limitations:** Hitherto, e-commerce was the domain of large retailers, because of the difficulty in accessing expensive and complex technology. But with improvements in band- width and reliability, Internet shopping will increase, providing convenience and the richness of experience well beyond, that available today.
3. **Internal Change:** Many online retailers face the combined challenge of managing significant growth and internal organizational change, to scale their customer service, database and fulfillment infrastructure - while technology is still evolving.
4. **Customer Inconvenience:** Many on line shoppers cite problems, like the need to re-enter personal data, variation in customer service across websites, and the lack of coordination between online and off line environments, in the case of multi channel retailers.

NOTES

5. **High Distribution Cost:** Retailers feel that many traditional suppliers have not reduced their costs, which could have been possible through effective integration of web based technologies. This results in less efficient on line retailing and higher prices.
6. **Channel Conflict:** Some traditional retailers are hesitant to go on line, because of a perceived conflict with channel partners. Manufacturers feel that on line operations might reduce sales through existing channels or alienate their existing distribution partners.

2.9 CATALOG RETAILING

Also known as mail-order retailing, is a type of non store format where the product or service is communicated to a prospective customer through a catalog. A variation of this format is **Direct Mail** retailing where the offering is communicated by means of letters and brochures.

The factor that most attracts customers to catalog retailing is convenience. Shopping at home, particularly at such harried times as Diwali or New Year, provides an undeniable attraction. Catalog retailers also offer the facility of gift wrapping orders and dispatching them directly to the persons for whom they are meant.

Catalog retailing offers a number of opportunities for reducing the operating costs-no sales people need to be hired, trained or paid. Such businesses can operate from low rent areas, unlike other retailers. Catalog retailers, can in fact, cut corners in many other areas, since their operations are not visible to the customer. Some other advantages of catalog retailing, include the ability of targeting likely customers on a national level and putting the sales pitch literally in their hands. When thoughtfully presented, they provide an interesting and enduring sales pitch, that customers can peruse and consider at leisure before placing orders.

But at the same time, catalog retailers face considerable expenses in the preparation and mailing of catalog. They also have to expedite shipments to ensure that customers receive their orders quickly and in good condition, lest the customers buy the desired merchandise from another source.

Types of Catalog Retailers

There are essentially two types of **mail order** or catalog retailers: (*a*) General merchandise catalog retailers and (*b*) Speciality catalog retailers.

General merchandise: Retailers offer a broad variety of merchandise in catalogs, ranging from house hold items to gifts, to food. Well known catalog retailers in the Indian context are Burlington's, and Indiatimes shopping, Oriflame etc.

Speciality catalog retailers: These retailers focus on, specific categories of merchandise, such as clothing, gifts, sporting goods, products and services for pets; jewellery, health and fitness etc.

NOTES

Guidelines for Catalog Retailing

Catalog business has been growing steadily the world over, although in India the growth has not been very flattering. But with more and more consumers switching over to multi channel shopping, catalog retailing in India is poised for definite growth, particularly because it is seen as an extended arm of e-tailing. People like the convenience of being able to shop **24/7** and appreciate access to products not available in local stores. But it takes more than good products to make a successful catalog; it is essential to establish credibility through design. Some suggested guidelines for success in catalog retailing are as follows:

1. **The catalog must reflect brand identity:** If the catalog looks different from the store, which looks different from the website, it will not sell. Customers want to enjoy the same brand experience, wherever they shop. The brand personality has to be translated across all media to assure customers they will receive the same consistent quality everywhere.
2. **Avoid clutter:** A lot of retailers, relate success to square centimeter space on a page. Cramming more merchandise in a given space does not result in higher sales.
3. **Know the customer:** Understanding who the catalog retailer is selling to, is essential for selecting the merchandise, styling the photographs, describe the product in the right tone, and developing the mailing list etc. It will also help the retailer, determine the image he/she presents - urban or rural, high style or wash and wear.
4. **Use of text along with pictures:** Good text will invite the customer to enjoy the catalog at leisure and make the product selection seem more meaningful and unique. Feature copy is not always a loss of selling space.
5. **The catalog has to sell as a whole not pieces:** The goal of a catalog retailer is not to sell one product, but to make the whole catalog sell. The most expensive product does not have to be the biggest object on the page. If the editorial content in the catalog is made interesting more products in the catalog will sell.
6. **Use of creativity in design:** It is not always advisable to use manufacturer's supplied photographs in the catalog. Because of mixed lighting, styling and photo quality, the catalog looks disjointed and sometimes less reputable. It may show the product, but it does not support the brand.

NOTES

7. **An order form should be included:** Research indicates, that shoppers like to use printed order forms to list and organize their purchases and gather the information they need. Even for phone-in-orders, this allows the operator to handle calls more accurately and efficiently.
8. **The quality of the catalog should not be sacrificed:** Catalog shoppers cannot examine the merchandise first hand, so they base their trust on what they can feel and see—the quality, design, photography, paper and printing. Presentation communicates the integrity of products and the credibility of brands.

2.10 DIRECT SELLING

Is sometimes referred to as door-to-door retailing, where a sales person, quite often an independent business person, contacts a customer directly in a convenient location, either at the customer's home or at work, or at home sales parties, and demonstrates the product's benefits, takes an order and delivers the merchandise to the customer. This form of retailing started centuries ago, with the roving peddlers. Today it has grown into a huge industry, with more than a 1000 companies world wide selling their products in this manner.

Avon, Oriflame, Eureka Forbes are some of the known companies using this format, apart from independent business people. Some of the products sold directly include: cosmetics, personal care products, kitchen ware, carpets and some other household effects. Additionally, services like insurance, education, travel, leisure health care, are also sold through this retailing channel.

In a multi level network, companies like Modicare, Oriflame and Amway appoint people as distributors in their network. These master distributors either buy the merchandise from the firm and resell it to their distributors or receive a commission on the merchandise sold by their distributors. In addition to selling the merchandise, the master distributors are involved in recruiting and training other distributors.

Although some direct selling companies are thriving, the future for this type of retailing format seems a little uncertain, on account of the following factors:

1. Increase in the number of single person and working couple households, reduces the chances of finding someone at home.
2. Increase in crime against individuals has made customers relevant to invite strangers into their homes.

NOTES

3. Recent advances in interactive direct marketing technology, means that this format will be replaced by the telephone, television and the home computer.

"Nothing Happens Till Someone Sells Something"-Red Motley.

In other words, Red Motley (former salesman a president Parade Publications Inc) suggests that everybody sells and every aspect of human relations is influenced by selling. The success achieved in selling depends to a very large extent on the seller's ability to win acceptance and his/her competence in the art and science of persuation. For selling to be effective, it has to be a planned activity, following a series of well thought out steps. Two methods of selling are commonly used: (*a*) Personal selling and (*b*) Telephone selling or Teleselling

Personal Selling

Involves the face to face interaction between the buyer and the seller. For this kind of selling to be effective, the salesperson has to employ a series of steps which constitute the **"Creative Selling Process."** These steps are

1. **Prospecting:** Everyone cannot be a company's customer. The important question is "Whom do you sell to."? We cannot sell a tractor to beauty parlour, or a sewing machine to a baker. The process of locating, identifying and finding people who are likely to have a need or want for a particular product or service, is called **Prospecting.** People or organizations, thus identified are called "suspects" or leads. These leads then have to be qualified in terms, of money, authority and need" to turn them into prospects. Sources of leads include; Referrals, Trade directories, Telephone directories, Cold calling, Housing records, Marriage registers, Observation and Trade shows etc.
2. **Pre approach:** Having located a prospect, the next step is to gather as much information about the prospect, in terms of his/her, need, status, background, values, education, occupation, experience, likes, dislikes, hobbies and so on. This helps in avoiding tactical blunders, during a sales call and establishing a better report with the prospect. All this is done, before meeting the prospect.
3. **Approach:** This is the first minute or two of the sale. It can either make or break a presentation. It is often said that the seller's **"First ten words are more important than the next ten thousand."** A sales person will never get a second chance to make a first impression. He/she should therefore make it good. Elements like facial expression, eye contact, dress and grooming, enthusiasm, handshake etc; are very significant. Many of these elements are non verbal and it is important to remember that in a face to face communication between two people, 93% of what transpires is **non verbal** (body language) and only 7% is verbal.

NOTES

4. **Presentation:** Having won the prospects' confidence, the next stage in the selling process for the sales person, is to offer the benefits and advantages of his proposition through the main body of the sale.

The sales person has to consciously or unconsciously move the prospect through the stages known as AIDA (Attention-Interest-Desire-Action). The effort should be to arouse a high degree of interest in the prospect to evince a positive response from him/her.

Trial close: The next stage calls for extreme sharpness on the part of the sales person to assess the readiness of the prospect to buy. An affirmative response from the prospect to questions like "How do you spell your name? With an 'E' or am F? do you want "Standard" or "Primer" finish? will give an indication to seller that the prospect is almost ready to buy.

Handling objections: "Selling begins when the buyer says No." This means that if the buyer raises an objection or seeks a clarification, it should be seen as an opportunity by the salesperson to exploit when the prospect, takes the trouble to object, it shows that he/she is interested. The sales person should then handle the objection tactfully, through product knowledge and communication skills, to get the buyer to say **'yes'.**

Closing a sale: This refers to asking for the order. The seller can use a number of closing techniques, involving, emotions, timing, availability to politely ask for the order, by saying things like; "It is a pleasure to do business with you. It is a decision you will never regret."

Follow up: Having clinched the deal, the seller's job now, is to reassure the customer that he/she has bought the right product, and the sales person and his company will always be there when needed. Figure 2.2 below summarises the Creative Selling Process.

Tele Selling

The telephone has long been recognized as an effective tool generating sales of products and services. But like any other tool, the user needs to use it effectively. In the overall, long term scheme of sales and marketing, many people feel that concept of proactive relationship building, tele selling is evolving into one of the major customer contact means in the future.

The telephone will drive more of the routine selling effort, making regular sales and service calls, similar to the type of calls made by field sales people in the past.

NOTES

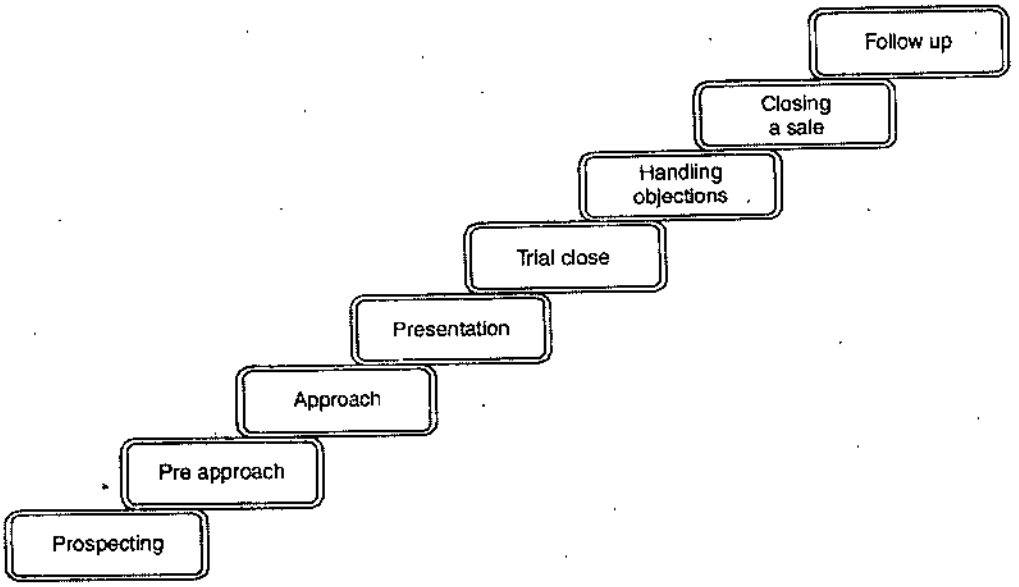


Fig. 2.2

Telephone selling is a telephone based retail format, for appointment making, reach or information exchange for the purpose of making a sale over the phone. As compared to direct mail, teleselling is expensive, because of the labour costs involved. But it is also extraordinarily effective.

This is because, it is a live medium where objections can be dealt with, appointments made and decisions reached -just like in a face to face selling situation; but without the time and cost involved in traveling. Telesales can typically generate 5 times the results produced by direct mail.

In telesales it is very important to set **targets** for the number of calls and/ or the number of decision making conversations or the number of appointments, direct sales etc; which can be achieved during a planned time period. Another critical area in planning telesales is the compilation of a **data base.** Depending upon the facilities available, this could be done in the form of **prospect card,** (Figure 2.3) listing essential details about the prospect like, name, address, contact title, type of need etc; or it could be formatted on a database package on a PC. It has to be ensured that the data is accurate and current. The process involve, research to acquisition, to customer service to business development. At all these stages the database must be updated constantly.

The next step is to make a specific offer. For example, to send information; or enter a prize draw; or see a demonstration; or respond early and receive a discount.

Another, extremely useful tool is writing a Script. It helps a great deal to start the conversation and keep it going. A script is a written outline of the likely pattern of conversation, particularly the **call opening,** offering a specific benefit. A script can be tested and changed for better results. In teleselling

the salesperson has just a 10 fleeting seconds to say something interesting to grab the prospects attention, before he/she switches off. That is why a script, particularly with a good call opening is always handy.

NOTES

Name of the firm	Contact		
Address	Title		
	Comments		
Telephone number			
Type of business	Sources of lead and date		
Type of need	Priority	H	M	I
Present suppliers	Action taken		
Credit rating	Date	Purpose	Results
Comments			

Fig. 2.3

2.11 TV HOME SHOPPING

Television home shopping is a non store retail format in which customers watch a TV programme demonstrating merchandise and then place orders for the products over the telephone. There are three ways in which a company can communicate to the target audience through television

1. Through an infomercial (informative commercial), where, between scheduled TV programmes, advertisements for products are aired and orders solicited from viewers. Through a 30 or 60 minute capsule, covering various products, with in depth demonstrations.
2. Through dedicated channels, which carry-programmes on television shopping, advertising products offered by a company, along with demonstrations and prices.
3. The Indian TV shopping market is estimated at ₹50 crones, with an annual growth rate of 20%. The prominent players in the Indian market are Asian sky shop. TSN, Telebrand.6 (India) and Star Wamaco. In India however retailers have not set up a channel dedicated to TV Home shopping.

Some of factors which account for the success of this format are as follows:

1. The consumer has very little time for shopping
2. The products are generally impulse driven

NOTES

3. The products should be demonstrable
4. The merchandise should be attractive, with some unique features
5. The products should generally not be less than ₹ 500/- and not more than ₹ 15,000/-.
6. The perceived value of the product, should be more than its price. (Typically items such as jewellery, health and fitness products, toys, electronic items and household appliances are sold through Home TV Shopping).
7. The product should require minimum after sales service
8. The retailer should keep on offering a variety of merchandise
9. The retailer should exhibit the same product again and again to arouse the customer's interest
10. The infrastructure and courier system should be efficient.

2.12 VENDING MACHINES (AUTOMATIC RETAILING)

Automatic vending is a non store retail format in which the merchandise is stored in a machine and dispensed directly to the customers when they deposit cash or use a credit card.

Automatic vending has a long history. The Greek mathematician Hero seems to have got the ball rolling in 215 BC, when he invented a machine to vend holy water in Egyptian temples. The first commercial coin operated vending machine was introduced in London, England in the 1880's. They dispensed post cards. In 1888, the Thomas Adams Gum company introduced the first vending machines in the United States of America, for dispensing chewing gum.

Issues in Automatic Vending

Although automatic vending in India is still in a very nascent stage, it is slowly catching up, with the new generation being exposed to western life styles and shopping habits through various media.

The first step in vending business is, for the retailer to determine, which vending business gives the best return on investment, in the least amount of time. It requires a good balance. There are many types of automatic vending businesses that produce a healthy return, but are however, very labour intensive. An example of this kind of business is, the snack, candy and soft drinks business. Regardless of good locations, there is far too much work involved.

Having identified the type of business a vending retailer wants to get into, the next step is to decide on which vending machine (quality) would serve the purpose best. This requires investment, probably in the form of a heavy price. Hence sources of finance have to be located.

The most important factor in automatic vending business is **location,** to establish the vending route. The machine has to be special in the eyes of the potential customers. The retailer has to give customers a reason to choose his/her machine. The machine has to be impressive and the location has to be great - preferably where the traffic is highest *e.g.*, airports, railway stations, shopping malls or commercial and office complexes. The machine needs to draw attention to itself, especially if there is competition. In India, automatic vending machines are used for soft drinks, candies, ice cream and ATM's for monetary transactions, set up by commercial banks.

2.13 LOCATIONAL DECISIONS

The choice of location is the most vital aspect for any business that relies on customers of which retailing is the classic example. Deciding on location is the most complex of the decisions to be taken by a retailer. Firstly the costs are very high and once a location has been selected there is very little flexibility.

As you would agree that choosing a wrong location can lead to losses and even closure of the store. This makes the selection of the appropriate location the most critical aspect of retailing. Location of a store in an area depends on its type of business and the type of customers it wants to attract.

2.14 TRADING AREA ANALYSIS

The importance of locational decisions as is due to the following factors:

1. Locational choice is a major cost factor.
2. It involves large capital investment (the high cost of land or building if it is being purchased of recurring cost of rent if it is leased).
3. It affects the transportation cost structure (Distance from the manufacturer, distributor etc., affects the total cost of transportation).
4. It has a significant bearing on human resources cost (if the retail store is located away from central locations *i.e.*, areas where public transport is weak the cost of employees will be higher as employees will have to be provided with transportation or paid for transport).

NOTES

5. It is dependable on the quantum of customer traffic (depending on the number of consumers who frequent the area).
6. It affects the volume of business (if the number of customers visiting the store are low then the volume of business done by the retail store is obviously affected).

Thus a locational decision as you would appreciate is influenced by the flow of vehicular and pedestrian traffic, which determines the footfalls in a retail store. It is very important to take pedestrian and vehicular traffic count of the location before choosing the location. For determining the pedestrian traffic the following aspects are to be considered:

1. Age and gender of the pedestrians passing through the area(exclude very young children).
2. Count by time of day *i.e.,* number of pedestrians passing through the area during different times of the day.
3. Pedestrian interviews *i.e.,* ask random pedestrians their shopping habits etc.
4. Spot analysis of shopping trips.

Further determining the vehicular traffic count is very important for convenience stores, Stand-alone stores and areas with limited pedestrian traffic. As you would appreciate that it is possible for a store to have good locational characteristics and poor site characteristics and to have good site characteristics and not have good location characteristics.

For instance the store may have a good locational mileage *i.e.,* in a prime area with good vehicular and pedestrian traffic, but may have poor site characteristics like not having parking space or the site may have all the facilities required but the pedestrian and vehicular traffic could be low and not generate enough volume of business.

Further one needs to appreciate that the location and site should interact in a positive way with a stores merchandise, operations and customer service. For instance if a convenience store is setup in a residential area with ample on site facilities and the location is a high traffic area then the store location can be described as a perfect location.

Example 1: Departmental stores like Lifestyle, Shoppers Stop, Pantaloon choose locations having right mix of location and site characteristics.

Example 2: Wal-mart, the world's largest retailer realized the issue of finding distributors for its scattered network of stores when it started moving into rural communities. To overcome this it setup regional distribution centers supported by a huge truck fleet to reap advantages of scale.

Example 3: Home-depot, the largest home center chain is seeking markets with significant aging suburban houses and apartments as it sees them as prime target for its "do-it-yourself " proposition.

NOTES

2.15 SITE SELECTION

The following factors play a significant role in the locational choice of a particular city:

Size of the City's Trading Area: A city's trading area is the area from which customers come to the city for shopping. A city's trading area could include its suburbs as well as its neighboring cities and towns.

Example: Mumbai, which attracts customers from all over India with its large numbers of trading centers.

The Population of the Trading Area: High growth in the population of an area can also increase the retail potential.

The Purchasing Power of the Customers: Cities with a large population of affluent and upper middle class customers can be an attractive location for stores selling high priced products such as designer clothes or even high value cars which have limited retail outlets. The fast growth in the purchasing power and its distribution among a large base of middle class is contribution to a retail boom.

Distribution Networks: A city may become specialized in certain lines of trade and attract customers from other city.

Number, Size and Quality of Competition: It is important to undertake a detailed study about the number of retail players across segments, their sales and quality of services before selecting a city.

Example: If a retail chain plans to set up retail discount grocery store they should avoid Kerala as Margin Free Market a retail discount chain has a strong retail presence in the state and has a very strong consumer base. It would be difficult for a retailer to compete in this market.

Cost of Land, Rent and Other Retail Development Costs: This is one of the key factors affecting the attractiveness of a city as a prospective retail location. If the cost of rental or the cost of land is very high it would be difficult for a retailer to break even especially if he is dealing in products with lower margins.

Evaluation of Factors for Location of the Store

Some of the factors that need to be evaluated for identifying the appropriate location of a store are as follows:

NOTES

- Qualitative and quantitative dynamics of competitive stores.
- Prospective retailers to evaluate the product lines carried by other stores, number of stores in that area etc.
- Shopping center provides easy access routes.
- Whether there are any traffic jams or congestion on the routes to the selected location.
- Whether there are any zoning regulations in the city as per plans of zoning commission and municipal corporations regarding the development of shopping centers, residential areas, flyovers etc.

For instance if a flyover is being developed in front of the location selected the retailer will not be able to attract the vehicular traffic. The retailer should consider the direction in which the city is developing while selecting its location.

Additionally, the retailer needs to consider the following aspects too:

- If there is adequate traffic and if so the potential of the traffic passing the site is good.
- Whether the volume of vehicular and pedestrian shoppers who pass by the specific sites represent potential customers.
- Does the site have the ability to intercept the traffic flowing past the site.
- Whether the vehicular or pedestrian traffic moving past the site could be attracted.

Further the presence of other shopping centers or stores in the vicinity can also influence the ability of the site to attract traffic.

- Complementary aspects of adjacent stores
- Sufficient parking space
- Vulnerability of the site to unfriendly location.

Thus before deciding on the chosen site it should be ensured that there are adequate parking facilities available in the vicinity, especially if the store expects vehicular traffic. The quantum of parking facility required for different types of stores varies as per size of retail store or mall.

For instance shopping centers require 4 to 5 spaces for every 100 square meter of gross floor space, Supermarkets require 10–15 spaces for every 100 square meter of gross floor space similarly Furniture Stores require 2 to 3 spaces for every 100 square meter of gross floor space.

Finally the retailer also needs to consider if unfriendly competition could emerge in the shape of a large discount store, which resorts to aggressive pricing strategies, which can threaten its viability.

Example: In USA many retailers had to close or relocate when Wal-Mart set up its stores in the neighborhood. The same was repeated in India when Margin Free Markets set up its stores, in the wake of which the kirana stores and the supermarkets in the vicinity had to close.

NOTES

2.16 STORE DESIGN AND ITS LAYOUT

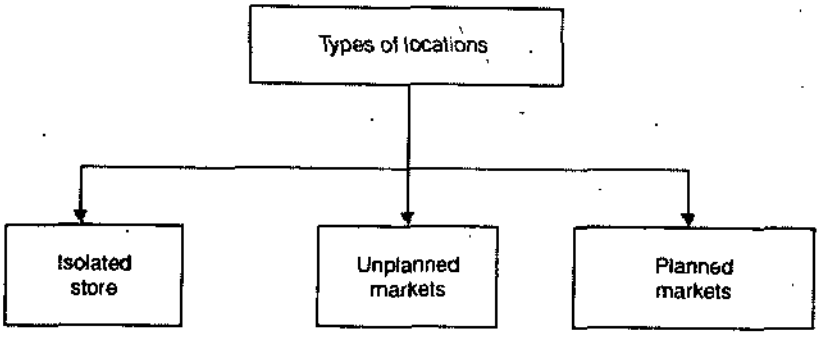


Fig. 2.4

The types of retail locations can be classified as follows: Isolated Stores. These store have typically no other retail store in the close vicinity. Their location depends on their pulling power of customers. The advantages of isolated stores are that there is no competition, the rentals are low as it is not a commercial area, further it will be able to have better visibility than other stores, constantly upgrade its facilities as per the requirement.

The imminent disadvantages of this type of stores are:

- It is difficult to attract customers as the travel distance may be high,
- The lack of variety for the customers that has limited choice of merchandise to select from,
- High cost of advertising as initially a high budget will have to be allocated to attract customers to the store,
- Further there is no sharing of costs like in a shopping center. The isolated stores are the stores you usually find inside housing colonies, which is the local Kirana store, or on highways as a shopping destination.

Example: These stores are typically what we call "mom-n-pap" stores/ convenience surrounded by other non-competitive stores.

They can also be specialist stores like "gift stores" located in a densely populated area with no competition,

Unplanned Markets

Unplanned markets are basically the markets that come up with no systematic planning for example the markets in the older part of the cities or where

NOTES

planned markets over the time have become unplanned markets due to poor municipal lades and unplanned growth of the markets.

Here you also find that there are multiple stores selling the same products. The advantages of unplanned markets for the retailer are that the rentals are very low, good access to public transport and availability of a variety of goods for the consumer. The disadvantages are difficulty in attracting customers, lack of proper parking facilities, no sharing of costs and lack of space for the setting up larger outlets or for the expansion of the existing outlets.

Example: Chandni Chowk market in Delhi one of the largest and oldest whole-sale markets attracts retailers, home buyers inspite of its poor approach, lack of parking facilities because of the range and price points it offers for all.

Planned Markets

The planned markets on the other hand are the shopping complexes, the Malls Etc. The advantages of planned markets are that there is a well-rounded assortment of stores making it a one stop shopping experience for the entire family. The malls have very large anchor stores which are either departmental stores or stores which have the crowd pulling capacity. Further in these malls you have a variety of stores, restaurants and services offered. There is high pedestrian traffic in these markets and all the retailers in the market share the costs like lighting up of the market for festivals or running of joint promotions to promote the market, which in malls is also supported by mall management.

The disadvantages of such a market are limited flexibility, the rents are higher compared to the earlier described markets, and it creates a highly competitive environment and domination of the market by the anchor stores.

Example: The Sahara Mall, Metropolitan Mall in Gurgaon and the upcoming malls across major cities and towns offering shopping, hospitality, entertainment and other personalized services.

2.17 NATURE OF CONSUMER GOODS AND LOCATION DECISION AREA

Shopping goods usually imply products with a high unit price, which are purchased infrequently and involve more intensive selling effort on part of the store owner. Shopping products we often sold in selected franchise outlets, Further it is the character of the retail store rather than of the goods it sells that governs the selection of the site. The following are some of the characteristics of buyers of consumer goods:

NOTES

- They compare Price, quality and features of such products across stores.
- While convenience goods are purchased by almost everyone, certain kinds of shopping goods are purchased by only certain -segments of shoppers.
- The consumers buy goods infrequently and plan their purchase.

Locational Decision in Retailing—Issues

It is important for you're to understand the role of retail location in the context of business practice. To do this it is important for you to start with the broadest possible view on strategic planning. The assumption being that the organization can control its assets, the environment(s) it operates, but cannot control the environment

The following factors affect the choice of a retail location:

Wherein the retailer needs to ask himself the following:

Question 1: What business (es) should we operate? In what business environments are our core assets most valuable?

Question 2: What should we be doing internally, versus outsourcing or not being involved at all?

This is implemented through decisions to enter and exit industries, acquire firms/closure of non-complementing businesses/vertical or horizontal integration or disintegration so on.

Business Strategy

Here the retailer needs to answer as to how he will compete in this line of business which leads to explore the following drivers:

- Product breadth,
- Target market, and
- Quality/price etc.

Functional Strategies (Finance, Production, Marketing)

Wherein the retailer needs to evaluate the best ways for him to serve his target markets with the desired products. Further, geography enters all three levels of strategy wherein the incumbent retailer needs to ask himself the following questions:

1. Are we a Indian company or a global company?
2. Do we have the assets to compete on the basis of worldwide low costs?
3. Where should we obtain financing, source inputs, locate production, and locate distribution or outlets? Given a production location, what technology and human resource policies can work best here? Given a retail location, what product mix and price points work best for us here?

NOTES

4. Do we have the logistics to service these chosen markets?
5. How many retail outlets do we need to cater to our chosen or desired market?
6. Where do we locate each retail outlet?
7. What is the product mix and level of product adaptation that is required for a given retail outlet?

However, though location decisions are most often made explicitly at the level of functional strategy they must be in tune to the overall competitive strategy. (So if 65 Locational Decisions you want to become a CEO of a retailing venture you need to gain experience and expertise in additional contexts. Geography is generally a means to an end in an organization).

Also the choice of location means a basic economic-geographic trade-off between economies of scale and friction of distance; relative concern for cannibalization versus eliminating competition.

More ambitious retailers might change not just the product mix but the entire concept and even the brand name of the stores to serve their chosen market (without weakening brand image/positioning).

For this they need to introspect by asking themselves the following questions:

- Where are our current or desired markets in general located (assuming monopolistic market areas)?
- How should we go about dividing our market among our various outlets (assuming monopolistic market areas)?
- How and where should we locate ourselves, what will our market distribution look like, in the context of our competitors?

For instance an excellent site for a shopping goods store is next to a departmental store or between two departmental store where there is a flow of traffic between them. Another good site is between a major parking area and a departmental store.

Example: The recent phenomenon that departmental stores like Shoppers Stop and Pantaloon have started being one of the anchor tenants for malls coming up in close proximity is a case in point. A case observed in Mumbai, Gurgaon, Kolkatta on account of small catchment areas and range of complementary products and services offered in the vicinity.

2.18 TECHNIQUES FOR LOCATIONAL ASSESSMENT AND INTAIL LOCATIONAL THEOREMS

There are a lot of techniques used in choosing of a store location. Some of the techniques used in locational choice assessment are as follows:

NOTES

Judgemental Technique: Where there is a heavy relianc e on one's gut feeling through environmental scanning leading to one of the following possibilities of locational imitation of competitors(or nearby competitors).

Systematic Screening Technique: Where the incumbent/existing retailer assumes the size of the market area using general rules of thumb survey of current customers like: 66 Retail Planning and Development

1. What radius or drive time would encompass a certain percentage of all customers? (But would this be the same in a denser, less-dense, or less auto-prone region?)
2. How to identify (and perhaps rank) preferred market areas of the given size?
3. What patterns or indicators to look at in published data on the household income, consumer expenditures, business growth, or population growth by metropolitan area or broadcast media market?

Analog Technique: Where the incumbent/existing retailer can look for market-area characteristics that are similar to the market areas of successful, analogous stores using the following techniques:

1. **Differential Analysis:** This involves analysing characteristics like-market areas and nature of stores, their product mix, management strengths, size etc. Thus they go on to differentiate between the most-successful and least-successful locational choices.
2. **Regression Analysis:** This involves determining the level of profitability (or revenues) across all sites (perhaps sales per square foot) as a function of a set of characteristics, and use the location-specific variables that are most significant.

Further if the analysis also includes non-geographic variables (age or training or experience of managers, age of the store, years since last renovation, etc.), then he can assume that he has a reasonable level of control on some of the things that make stores disimilar to each other.

> ***Note:*** *Regression coefficients can be used to predict the level of profitability or revenues from each alternative format and location proposed for a new store.*

In case of an incumbent retailer with no existing outlets to benchmark against with the following techniques can be used:

Market-area analysis: Where he can seek market areas that have generally desirable characteristics and then gradually build up his data from a small-area data depending on what he sees is desirable for his product and marketing strategy.

This requires: Geo-demographic data (data on the median or average economic and demographic characteristics of inhabitants within small geographic areas), or

NOTES

source and its destination, the distance between them and the impact of transport cost on the demand of the product at the retail store. This model helps us to systematically estimate as to how much demand a given outlet will likely draw from each market area. This may help us in estimating whether the sales can be expected to increase with any of the following factors and variables:

1. Attractiveness (*e.g.*, square footage)
2. Demand
3. Distance (or cost of distance) between them
4. Nearby destinations etc.

Geo-demographic marketing approach: This approach to marketing recognizes that some part of the retailer's market may be highly fragmented geographically. Further customers respond strongly, across various distances, to some specialized attribute of the retailer. While the location of the retailer may not be affected, geographically targeted promotions (*e.g.*, direct mail) may be arranged on the basis of geo-demographic data, targeting individuals by targeting neighbourhoods.

Further we can use geographic analog reasoning with the following possible scenarios:

1. Customer spotting to determine the sources of current customers.
2. Identifying the generalized characteristics of the neighbourhoods or zones housing concentrations of current customers.
3. Identifying other neighbourhoods or zones, with similar generalized characteristics, to target.

2.19 PROMOTION

From times unknown, retailers have tried to attract the customers towards their products and services and more importantly their store through novel methods. At one point of time, few decades back the retailer seems to know the names of the customers as well as their nature of purchase.

On the other hand customers used to associate themselves with the specific store based on the relationship they had, with the retailer. That was an era which was marked by lesser number of stores as well as, equally lesser number of customers. Over a period of time things have changed drastically to make the customers more demanding. To make things grimmer, there has been a quantum jump in the number of stores as well as individual sizes of major stores. All these factors have led to a situation whereby, the customers

are on the lookout for the best bargain. The purchase decision is just not based on relationship but on hardcore monetary gain and the experience quotient derived out of the shopping transaction. All this has made marketing communication a significantly critical area from the source point of view. This is because, customer visits are perception based in the first instance and there onwards it is based on their own experience. Whether it is a matter of perception for a first-time visit or a satisfying experience within the store and a sense of happiness for transacting with the store, all depends upon the marketing communications strategy of the store.

2.20 TARGETING CUSTOMERS AND GATHER INFORMATION

Scarcity of Time: Majority of the families are dual earning and have various commitments to attend. They thus face paucity of time to invest in purchase transactions. With increasing distances a major part of the consumer time is consumed in commuting. This leads to an increase in time cost for the customer. Thus, they have become very conscious about the time factor.

Lifestyle and Status: Customers in general have developed a great sense of individualism. People follow distinct lifestyles and would not like to compromise there. This leads to an intensive search by the customer for specific product types and styles. Thus the customers would like to confirm whether the retail outlet has a perception amongst the customers which matches their preference.

The retailer should take this scenario in his stead and sincerely work to establish a positive image. At the same time it should be his endeavour to communicate to the customer about the range of products and services which can satisfy the customers at prices which suit the customers.

2.21 RETAIL MARKETING COMMUNICATION

All means adopted by a retail store to communicate a store specific message to the customers constitute the retail marketing communication. Therefore we can say, whatever, a store does to communicate to the target audience regarding the visit worthiness of the store can come under the broad heading of retail marketing communication.

NOTES

2.22 BASIC TASKS OF COMMUNICATION

1. Intimate the customers about the presence of a store or outlet.
2. Invite them to visit the store and make it really an attractive proposition to do so.
3. Amidst all the media clutter make a consistent effort to remind them to do so.

It has often been experienced that some promotional schemes have been introduced in the market by manufacturer's brand. This is backed by heavy advertising and publicity. However when the customer goes to purchase the same brand he either does not find it available or more surprisingly, the store is not aware of the scheme being offered. This anomaly or inconsistency can be minimised by the integration of the communication strategy.

The primary function of any marketing communication strategy is to increase footfalls in the store. This footfall can be increased by informing the customer about the store and motivating him to do so. Differentiation from competitors is also a major function or marketing communication. Here it is worth mentioning 36 Retail Mix 37 Promotion and Communication Mix that marketing communication strategy will be very different for large retail chains vis-a-vis single unit retail stores. A large retail chain based on multiple geographical locations has diverse audiences to address to. Thus the communication strategy can be fine tuned as per need of the store. However it is very important to remember that even in case of fine tuning of communication strategy the identity of the store remains the same. Strategy has to be such that the image and identity of the chain remains the same.

2.23 INTEGRATED MARKETING COMMUNICATION: COMMUNICATING WITH CUSTOMERS

Integrated marketing communication consists of a quiver of communications tools. It includes:

Advertising

It would include all paid forms of nonpersonal presentation of ideas to promote the store. Advertising gives a reason to buy from the specific store to the customers. Here, we can include all the advertisements in the press, television and all other forms of media. The latest type of advertisement in the press is known as advertorial. In this case a detailed report is prepared and presented in the form of a press report in the newspaper, which is actually not so. These reports or other promotional material are presented in an

innovative manner so that, the customer (reader) takes it as a genuinely covered press, report.

Sales Promotion

NOTES

It includes off-season discounts, off-season sales, free gifts, most valued customer schemes etc. Sales promotion gives—an incentive to buy from that store as against the mission of advertising to give a reason to buy. It has been seen over the years that sales promotions have been successful in boosting sales even if, for the promotion period only. Retailers must be cautious while introducing such schemes as, it leads to counter schemes by competitors towards as well as a sharp dip in sales after the promotion is over.

Publicity

All activities which give some sort of positive or negative image on the basis of activities done by the store come under the broad heading of publicity. For instance, if a big retail store (foes some charitable activity to help some underprivileged cross-section of society and, it generates media interest, which leads to media coverage then, we can term it as publicity. It has been experienced that publicity is more effective in tone for promotion than advertising. However, stores should refrain from getting into controversial areas to avoid any negative publicity which may adversely affect its image amongst the target audience.

Direct Marketing

All forms of store promotion through brochures, catalogues and Internet can be categorised under the broad heading of direct marketing. Direct marketing has been very popular in Western countries but not so in India. It has been seen that, transactions through the net have not been that popular in India. Reasons can be attributed to problems related to product delivery and payment while transacting through net. However, we must bear this in mind that in comparison to advertising, direct marketing proves to be a cheaper and effective medium for store promotion. The greatest advantage of direct marketing is that, it not only draws attention of customers for visiting the store but, also presents an opportunity to buy products over the phone or through the Internet.

Personal Selling

Personal selling is an integral part of integrated marketing communication. When a store uses its sales force to give personal attention to the customers and follow-up in a personalised manner it becomes an effective tool for store promotion. At times store personnel do visit customers at their residences to develop an intimacy and obviously, promote the store.

NOTES

Public Relations

The image a store develops through its public dealings like interaction with the customers, enthusiasm amongst the store employees and customer's grievance handling mechanism constitutes public relations or PR.

The concept of integrated marketing communication (IMC) as it is popularly known simply states that all the tools of marketing communication mentioned above should be used in tandem to achieve the organisational goals. Further, you should appreciate that all these tools have their own unique characteristics to communicate the specific message in a distinct manner. You should understand that all these tools when applied together or in short intervals should never deliver a different message or image of the store. For example if a particular retail store hires top notch models to inaugurate the store backed up with a jazzy advertising campaign, it definitely carves out an image in the minds of the customer.

However, if the customers perceive through word-of-mouth communication that the store does not offer such premium products as was expected in line with the image formed, it may result in a sharp decline in footfalls in the store. Similarly after such an advertising campaign if the publicity generated by the activities of the store is unable to match the image, even then it will lead to a fiasco for the store. The bottom line there is all the tools of marketing communication have to perform in a co-ordinated manner as instruments in an orchestra. We can put the retail store at the core of this mix at the time of need arousal, the customer has several questions. These questions can be

- Which product to buy that satisfies the present need?
- Which brand of the product buy?
- Which store to purchase from?
- Whether to purchase from a single store or compare the offerings at various stores?

Many communication variables influence the decision to do shopping at a particular retail outlet. Given the fact that there that multiple retailers and multiple products trying to convince the customers with the messages, the role of marketing communication becomes very critical.

2.24 STEPS FOR DESIGNING AN EFFECTIVE IMC STRATEGY

For developing a proper IMC strategy a retailer must follow the following steps:

1. Design the Marketing Objectives

2. Devise the Communication Objectives to Achieve the Marketing Objectives
3. Situation Analysis
4. Design the Marketing Communication Strategy
5. Prepare the Budget
6. Implement the Marketing Communication Strategy
7. Review the results and compare with targeted results
8. Corrective Measures.

Design the Marketing Objectives

Each retail store understands what it requires, to not only survive in the competitive market but also earn profits. In this context what sort of marketing objectives the store should have is to be decided as the first stage. Marketing objectives may change as per the market situation and level of establishment of the retailer. A well established retail store would not concentrate on spreading awareness amongst the consumer segments where as a new and upcoming store would like to do so.

Objectives of a Retail Communication Strategy

Communication strategy of any retailer is based on his marketing objectives. It would depend on the retailer whether he is interested in getting a big footfall and many customers visiting the outlet or interested in very specific preference customers visiting and also buying from their store. More importantly some retailers initially aim for a big footfall so that the store gets the maximum visibility; thereon they try to focus on their target segment with specific communication signals.

Communication Objectives can be both Long Term as well Short Term

Long term communication objectives: These are those communication objectives which any retail entity would not like to change in the short run. These goals are not achievable overnight. At the same time it is worth mentioning that once achieved these goals cannot be won over by competitors in the short run until and unless some thing drastic happens. Long term objectives can be creating a strong brand image for the retailer or creating brand loyalty.

Short Term Communication Objectives

These objectives keep on changing as per the changing market scenario. Such objectives are necessary from a promotion as well as competition perspective. Supposedly the retailer wants to increase footfalls he can design a communication which can attract traffic to his outlet. During the festivals

or monsoons one can design strategic communication aimed at specifically increasing the sales.

Devising Communication Objectives

NOTES

The first step in the strategy of designing communication and promotion strategy is to have the marketing strategy in place. Marketing objectives can be designed out of the marketing strategy. A retail store new to the market may like to have a strategy to have a good penetration in the market. For this his objectives can be maximisation of footfalls as well as increasing awareness about his store among the audience. However on the other hand in case of an established retail store the strategy can be well very different from the small store. A well established large store can think about having an up market image in the target segment and therefore go for premium pricing as well as premium branding. Test case can be of a retail store dealing in seasonal goods like garments. Such a store has to have a very different strategy since, his dealing and transactions will be limited to a specific duration of the year. Marketing objectives can be for instance, an increase in sale by increasing footfalls, it can also be, restriction on footfalls by having premium pricing of the products available in the store.

More important than having a marketing strategy or an objective in place is to communicate the same to the customers in the most convincing and persuasive manner. Once the marketing objectives are in-place, the retailer has to concentrate on 'what to communicate to the customer so as to the marketing objectives which in turn will finally make his marketing strategy successful. Most important part of communication strategy is the fact that, what message is to be given to the customers so that they think in a way, the retailer wants them to. For instance, you must have seen big advertisements of sale given by various retail stores as well as showrooms. However, at the very first instance when you see that advertisement, you have a feeling that this is a false statement. This is due to the fact that over a period of time customers have been exposed to various advertisements and promotion schemes where they have not been benefited to an extent they would like. Therefore with that sort of experience curve the customers would never like to get into such a net.

Situation Analysis

Once the marketing objectives as well as communication objectives are in place next step is to study the market situation. After conducting situation analysis a retailer may come to know that he has to fine-tune his message and change the media vehicle to achieve the communication objectives. It can be possible that, before launching any promotional scheme a retailer comes to know that a competitor is already launching much more aggressive as well as valuable scheme from the customers point of view. If the retailer

would have launched his scheme he would have been a big loser after the counter scheme launched by the competitor. Moreover situation analysis also gives vital information to the customer regarding customers propensity to consume, existing retail scenario, entry of new players, as well as exit of old players.

Designing a Marketing Communication Strategy

Marketing communication comprises of various constituents like advertising, sales promotion, personal selling, direct marketing, event management etc. *On the basis of situation analysis the retailer is very well aware about the* market situation. Thereon on the basis of marketing objectives as well as communication objectives a retail marketing communication strategy is designed. The marketing communication strategy contains a blueprint of what to do so as to achieve the communication objectives in a way that the *marketing objectives are achieved which in turn, fulfils the marketing* strategy.

All the target segments cannot be communicated with just one mode of communication. Therefore it is an endeavor of the retailer to allocate budget and strategically plan the roles for those communication tools which are required. For instance, in case a retailer is based in a downtown area with middle income and lower middle income population then it presents a unique scenario. Here customers would expect to have the best bargaining in the form of lower prices. Basically they would like to have a value for money. Here the retailer will have to communicate about availability of products at their (affordable) price range in the most convincing manner through a creditable channel of communication. On the other hand in case of an up market store based in one of the posh localities the scenario will be very different. Any retail store where such situations exists will, have to plan for a strategy of maintaining an up market image and delivering goods and services which justifies that image.

Preparing the Budget

All strategies and objectives of the retailer can go flat for want of funds. Any strategy or marketing objective design should be undertaken in line with available resources. it is of prime importance communication and promotion. Depending upon the turnover of the company as well as the affordability a budget can be designed in consultation with the concerned personnels of the organisation. While planning the budget a retailer has to be very cautious about the short-term and long-term implications of investment. For instance, if a retail store invests excess funds in the fixed assets like building, air conditioning plant etc then availability of working capital will really come under pressure affecting overall sales performance of the store.

NOTES

Implementation of the Communication Strategy

This is one of the critical stages of marketing communication strategy. While implementing the strategy any retailer should be very cautious that the implementation is in letter and spirit as devised while at the planning stage. An important point to be mentioned here is the scope for change in strategy at this stage. Retail market is the most dynamic place in today's era. Therefore, even after conducting situation analysis and designing the strategy on that basis a need can arise to make some minor or major changes at the implementation stage. An ideal strategy should be flexible with proper scope to accommodate changes. Moreover sincere assumptions in this regard must be made.

Reviewing and Evaluating

With the implementation of the plan of action the retailer must impartially look into the results of implementation of the communication strategy. Communication strategy once implemented starts giving results within a reasonable period of time. In case customer are convinced and motivated to the message of the retailer it must translate into increase in footfalls, as well as actual sales. However, the customers can completely reject the stand taken by the retail store by not visiting the store and purchasing their products. However, it is worth mentioning here that with the implementation of any communication strategy it can be expected that competitor stores also launch a counter communication campaign. That may not only minimise the impact of one's communication strategy but completely negate the outcome. A retail store must therefore have a contingency plan ready for such situations. In case a contingency plan is in place then it can immediately be implemented in case such a situation arises. Whenever we speak about a contingency plan we do not intend for one fixed plan. Contingency plans are flexible lines of action against a set of different competitive situations.

2.25 POSITIONING RETAIL STORE

One very important aspect of the market which a retailer has to keep in mind is positioning of his store. At any given point of time what should be the point of association with the store is very important. Referring to the marketing fundamentals we can define Positioning as the image which the customers carry for the specific brand. In retailing we can take two examples to see as to what Positioning means in retailing

- **Shopper's Stop:** Feel the experience while you shop
- **Big Bazaar:** Is se sasta aur achha aur kahin nahin!

NOTES

Taking the big bazaar example it is evident that the retailer wants to play the price plank to promote himself, and has accordingly tried to position himself as the retailer offering products at the cheapest price in the market. Before deciding on the communication objectives it is essential for the retailer to decide upon his positioning strategy. It is this strategy which will in future not only guide the formulation of short term communication strategy but also the pricing, merchandising, layout related issues for the retailer. It gives a distinct and unique position to the outlet. It further helps the customer to distinguish amidst the message clutter and also associate. Interestingly it also helps to disassociate if the need be.

From a retailer's perspective two more tools which play a significant role in communicating to the customer are:

1. Store atmosphere and visual merchandising
2. Sales people

2.26 STORE ATMOSPHERE AND VISUAL MERCHANDISING

Store atmosphere in today's age is the key aspect for communicating a positive and happy image to the customer. This factor makes one feel like visiting a specific store every time. Similarly this factor can also have an adverse impact and may prevent a customer from visiting a store even the second time.

Store atmosphere is the ambience created within the retail store. It creates a big impact on the customer. The way the merchandise has been stacked and the specific location for each of the goods form the core of visual merchandising. Customers first observe the products and then take a decision to purchase. The store atmosphere and viewing of the merchandise through its abstract communication, influences the purchase decision and the overall mood of the customer.

2.27 RETAIL PROMOTIONS

With the growth of retailing in India you must be observing that there has been a tremendous rise in various schemes which the retailer opts to boost his sales. You must have visited a retail outlet with the banners about discounts, free gifts, and other such attractive schemes. All these constitute retail sales promotion. Such sales promotion tools are excellent generators of demand is used strategically with a proper timing.

NOTES

2.28 PROMOTIONAL OBJECTIVES

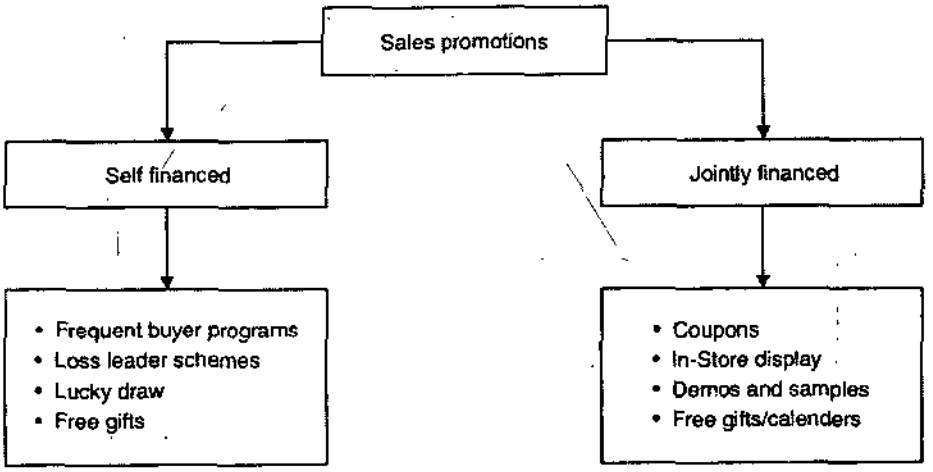
A retail outlet may have multiple promotional objectives. Long-term objectives of a retail store can be to create a positive store image which has a lasting impact on its customers. More important as it is about this positive image is that it should be a differentiating factor for the store amongst a host of competitors.

Short-term objectives can be primarily to attract new customers. Moreover it can also claim for an increase in frequency of visits from the existing customers.

2.29 TYPES OF SALES PROMOTIONS

If we look into types of sales promotion schemes we find there is a definite distinction which draws a line between the two classifications of sales promotion. Before we get into classification you must understand that the sales promotion schemes does not only help the retailer to boost his sales but, also supports the cause of the manufacturer. Therefore it is also the responsibility of the manufacturer to contribute in the endeavour of the retailer. Now coming back to classification the two types of sales promotions can be

- Sales promotion completely financed by the retailer
- Sales promotion jointly financed by the retailer and manufacturer.



Self Financed Sales Promotion Schemes

Frequent buyer programmes: To boost the frequency and quantum of purchase retailers come out with novels means. This is very much prevalent in daily needs and grocery stores. The monetary figure is kept as the minimum limit of purchase during a given period of time. If any individual customer

is able to purchase more than the fixed range he/she is entitled for free gifts, or a discount voucher which entitles the customer to avail discount on future purchase. Such schemes may also involve contests which can be a lucky draw.

Loss leader schemes: To attract greater traffic in the store (general and grocery stores, supermarkets and daily needs stores) a retailer offers a prominently popular brand on discount. This discount however, is not offered by the manufacturer. The discount amount is basically the loss to the retailer which she/he beards to have a better traffic in the store. The bottom line in this and there is to generate a better traffic who will not only purchase the brand offered on a discount but also go for other commodities which may not only offset the losses for the retailer, but also on profits demand for calendars of the New fear or any other novelty items like key-chains, wallets etc. A retailer invests a good amount of money into these articles. The main aim of such gifts is to retain existing customers and also to attract new customers.

Jointly Financed Sales Promotion Schemes

Coupons: There are many instances which can be quoted in this regard. You must have seen and also experienced various discount coupons as well as scratch a gift coupons offered by various manufacturers. Companies like the whirlpool, and Vimal from Reliance have been offering scratch a gift contest for a long time. This has been followed by it majority of players in the consumer durables market especially the consumer electronic goods. This scheme not only benefits to customers but also generates a lot of interest and enthusiasm amongst the customers to try their luck out.

In-store displays and demos: Once again, in consumer electronic goods it has been seen over a period of time that companies have invested for increase the attractiveness of the store. Besides this it also brings in expertise from the organisation to the retail store level which can be very helpful in overall retail display in future. Many manufacturers adopt a different route than in-store displays, which is the root of demonstrations or demos. Many reputed manufacturers have opened up small shop in shops to demonstrate the useage of their products. Revlon has been successfully doing that to position itself as an affordable brand in the retail consumer psyche.

Free samples: Long back when Maggie was introduced by NestI6 in India, free sample tax packs were distributed in high status popular schools to enthuse the young customers with the product. It was at that point of time when the concept of noodles was still very new for the customers. Similarly, oriel and Surf Ultra both prominent detergent brands distributed free samples of their detergent powder to motivate and encourage the customers to use their respective brands.

Free gifts: As mentioned earlier, (in the sales promotion schemes financed by the retailer) free gifts are offered to the customers as a recognition for their relationship with the store. Such free gifts can also be sponsored by the

manufacturer with their brand name and logo embossed on the products to inculcate better top of the mind brand recall. •

NOTES

2.30 ROLE OF SALESPEOPLE IN RETAIL PROMOTION

The attitude of a salesperson plays a big role in motivating the customers to buy products from the store. Moreover salespersons play a big role in making the customer make up their mind as well as feel happy about the purchase. Good salespeople can estimate the overall purchase potential of a customer as he steps into the store. Especially in products like readymade apparets, garments, rextiles, jewellery, suitings customer in a big way looks up to the salesperson for guidance, advice as well as encouragement to buy a specific product. In case of a customer who is dissatisfied, the role of the salesperson becomes even more critical.

Salespersons can motivate such customers once again who come into the mainstream of the retail store. They can be instrumental in redressing the grievances of the customer. Happy and cheerful salespersons transform the atmosphere of the store. They can positively change the shopping experience of the customer and motivate him to revisit the store again along with his friends. On the other hand demotivated salespeople as well as inexperienced salespersons can prove to be a liability for the retail store. At any point of time the customer would not like to be entertained by inexperienced and negative salespersons.

2.31 SUMMARY

- Besides, franchising the other major retailing format that became popular in the Indian context is the multiples, which are better known as "Chain Stores".
- This is a retail format in which retailers communicate with customers and offer products and services for sale over the internet.
- An online retailer is in an excellent position to increase the breadth and depth of customer relationships.
- The telephone has long been recognized as an effective tool generating sales of products and services.
- Television home shopping is a non store retail format in which customers watch a TV programme demonstrating merchandise and then place orders for the products over the telephone.
- Shopping goods usually imply products with a high unit price, which are purchased infrequently and involve more intensive selling effort on part of the store owner.

- All activities which give some sort of positive or negative image on the basis of activities done by the store come under the broad heading of publicity.

NOTES

2.32 REVIEW QUESTIONS

1. Discuss the various traditional formats that you are familiar with. Comment how relevant they are in the current retail business environment.
2. Define—a modem retail format. How does it differs from a traditional retail format?
3. List out all the modem retail formats in the Indian context and explain each of them briefly.
4. What do you understand by non store retailing?
5. What are different types of non store retailers?
6. Discuss Retailing Model.
7. What are barriers to Growth?
8. What is catalog retailing?
9. What are different types of Catalog Retailers?
10. Discuss Direct Selling.
11. Discuss Personal Selling.
12. Make a list of the various ways in which local markets areas are delineated? Further describe the variables used in screening of site alternatives.
13. Elaborate on the significance of locational decisions for an upcoming construction specialty mall coming up in your neighbourhood.
14. Describe the role of traffic arteries and lanes in determining the evaluation of a retail site.
15. Describe the role of the two locational theories and retail market Identification in the emerging Indian retail context.
16. Can you give some more reasons causing change in customer attitude besides the one given in the unit?
17. What are the options available to the retailer for communicating to the customer?

2.33 FURTHER READINGS

1. *Integrated Retail Management,* James R. Ogden, Denise T Ogden, Dreamtech Press.
2. *Modern Retail Management, Principles and Techniques,* J.N. Jain and P.P. Singh, Regal Pub, 2007.
3. *Retail Management, A Realistic Approach,* Neelesh Jain, Global India Pub, 2008.

NOTES

UNIT 3 ORGANISATION STRUCTURE AND MANAGEMENT OF HUMAN RESOURCES

★ STRUCTURE ★

NOTES

3.0 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- discuss about the retail organization and HRM.
- know about the retail organization and operations management.
- what is financial dimensions?
- describe the managing retail services.
- explain the perceptions of service quality.

3.1 INTRODUCTION

Managing employees of an organisation was earlier termed as personnel management. However over a period of time with the growth in consciousness amongst the employer community, employs but the status of a vital resource.

Thus this was termed as human resource management. Humans found a vital resource for any business. As an old adage that business always runs by three M's men, money and material. Of late with the growth in the British and hazardous level of awareness and aspiration human resource management has become one of the most challenging frontiers of business management.

3.2 MANAGING RETAIL SERVICES

Retailing is the human centric industry. Customers come to the store not only because of the ambience or reasonable price or the quality and range of products. They value the interaction with store personnel. Moreover it is this human factor which gives valuable input to the store management about the specific requirements of the customers. A proper human resource planning saves vital financial resources in the form of prevention of embezzlement, fraud and also shoplifting. All these factors makes the human resource management an essential element of the overall retail strategy for any retail organization.

The first step in effective human resource management in retail is to look into the organization of the store. One must look into the tasks to be performed in the retail distribution channel. Thereon the tasks are to be grouped into different jobs. These jobs can be further classified into various classes. Finally one can form an organization chart and integrate various jobs therein.

NOTES

Human Resource Functions in Retailing

With the growing pace of retailing in India the rate of growth of retail malls and markets may have even exceeded the population growth. However, keeping up with the pace of retail growth, no such development in the growth of training facilities for prospective retail employees has taken place. This poses the biggest challenge for the human resource management department of any retail organisation.

3.3 STRATEGIC OBJECTIVE OF HUMAN RESOURCE MANAGEMENT IN RETAIL

Each human being has distinct goals in one's life; an individual's behaviour is directed by these goals and principals. Similarly each organisation has its own goals. The strategic objective of human resource management is to collectively integrate the capabilities and goals of the employees with the goals of the retail firm.

3.4 FACTORS INFLUENCING DESIGNING OF ORGANISATIONAL STRUCTURE

While designing an organizational structure some important considerations need to be kept in mind as:

Scope of Operations: With such difference in volume of transactions the job requirements are also different. Manpower planning accordingly changes. For larger chains it's essential that the manpower is well qualified to handle such large scale operations.

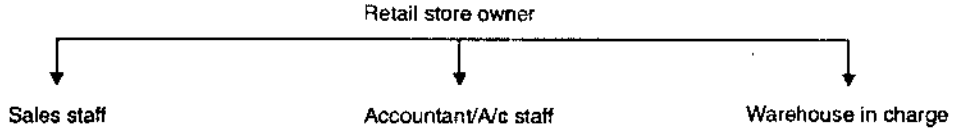
Nature of Merchandise: It is very important constituent of the human resource planning process. The type of merchandise a store deals with has direct implications on the type of skill sets needed. For instance a retailer selling ready made clothes will need people who are proficient in understanding customer's 4 clothing needs and offer the best possible alternatives. However in a leather shoes and leather accessories outlet such persons will be needed who have at least preliminary knowledge about leather especially footwear.

Type of Organisation: Depending upon the organisational structure, requirement for human resource changes. A retail organisation can have a host of departments like Sourcing, Marketing, Accounts Warehousing on a functional basis. It can also have divisions based on various products it deals with. For example, The Giant at Hyderabad not only deals grocery items but

also other categories like vegetables, fruits as well as casual wear and utensils to name a few. Thus they have different centres for sourcing their different products and also warehousing such varied products have specific requirements for manpower.

3.5 RETAIL ORGANIZATION AND OPERATION MANAGEMENT

India is dominated by a large number of small and independent retailers. The best example and perhaps the oldest one is our neighbourhood PanWala (beetle leaf shop). There can be a host of other examples such as the neighbourhood grocery shop, furniture shop, gift shop, sweetmeat shop and others. These retail outlets are owned and managed by an individual or family. Such retail stores have typically the following organisational structure.



Small stores generally employ on a contract basis or on job rate basis, lawyers, chartered accountants, income tax consultants as well as investment consultants. However that cannot be included in the organisational structure as they are not employees of the organisation.

3.6 SERVICE CHARACTER STICES

Retailing is very different from other industries. As in any other services industry in retail human aspect is of prime importance. With technological advances there have been changes in retail environment. However this has only increased the importance of human resources. While you visit a store big or small, role of the individual who helps you buy your stuff is immense. Generally in India festival buying is one of the biggest sale earners for retail. Besides this generally sale picks up on holidays, vacations and similar occasions. Thus the bottom line is, when everybody is enjoying the festivities or having holiday time you slog the most. More importantly in the midst of tough competition and more demanding customer a retailer has to cash in. This gives a very strong message. All the employees of retail stores should be ready to sacrifice their holidays, festivals for the sake of business. Thus while recruiting staff one must be clear about the candidate's individual goals and temperament.

NOTES

Here it's worth mentioning that character and integrity of the candidate is of great significance. In case a retailer is able to plug internal theft and embezzlement he is a big gainer. Moreover on the part of the employees it's also requited to be ever vigilant to prevent shoplifting.

3.7 FINANCIAL DIMENSIONS

Human resource management has always been an issue for big retailers only. Wherever you go to the neighbourhood grocery shop or cloth merchant or say a small restaurant the owner is the chief of operations. All the employees of that establishment report to him or her. All decisions whether strategic in nature or related to day-to-day operations are taken by the owner. The need for human resource management is actually felt by big retailers like shopper's stop, pantaloons, etc.

Any typical retail organisation would commonly need the following human resource functions:

- Job Analysis and Job Design
- Recruitment and Selection of Retail Employees
- Training and Development
- Performance Management
- Compensation and Benefits
- Labour Relations
- Managerial Relations

Source: Adapted from C. Fisher, L.Schoenfeldt, and B. Shaw, Human Resource Management, 5th ed, (Boston: Houghton Mifflin, 2003), pp. 14–27

Job Analysis and Job Design

Each retail store needs to analyse the jobs to be offered to the prospects. The job analysis involves a process of finalising the job content and based on the findings preparing a design for the job. It is the responsibility of the store to prepare the job design since, it is necessary from the new employee point of view. A well-prepared job design and job analysis helps in the recruitment process and thereon in training to achieve the required results.

Task analysis: This is one method of facilitating the listing of tasks. First the retailer or HR manager identifies tasks which are essential for the achievement of organisational goals. Thereon it's defined that which employee positions will be responsible for those tasks. Finally standards of performance for each position are set.

The Task Analysis Process

For task analysis the first step can be termed as task identification. Here the retail manager is supposed to list all the tasks needed to run the business. It is necessary to take a decision regarding assignment of different tasks to different members of the channels of distribution. At all points of time you should bear in mind that customer is the central focal point while taking any such decisions. Once the identification of tasks is done the next logical step is turning the different tasks into job positions.

In this step various tasks are grouped under distinct heads which can then be converted into positions or designations. For this, each task can be broken into some tasks which in turn can lead to creation of positions. This means, the set of tasks or an individual tires can be assigned to an individual person. For this we need to prepare what is known as a job description.

Job description is a document which states as to what are the exact requirements of a particular job. However in the present competitive scenario we need to keep in mind that the employees do not work with the narrow scope of job description. It is worth mentioning at this juncture because employees tend to limit their scope of work in line with the limitations of job description. We have to keep in mind that in this competitive and dynamic world our job profiles can change overnight as per the requirements of the store. Job description is an iterative process. One should keep in mind that job description is an ongoing process. Once our job descriptions are ready we must fix the standards of performance for performance appraisals and evaluation.

This is the final step in task analysis were performance standards are to be developed for the different tasks which have been mentioned in the job description. Whenever we are fixing standards we must indicate the level of proficiency required to meet the quality and quantity expectations. This in turn helps us to identify as to what can be the training needs for a new employee or an existing employee. At the same time it guides the human resource management department in giving reasonably logical feedbacks to the employees.

Training and Development

New developments are always taking place in the retail scenario. With the growth in retail the consumers are maturing by the passing of everyday. In India, whatever you experienced as a customer 10 years back is very different now. Retailing is the most dynamic field of business management. With such changes in the field employees of any retail store ought to learn and train themselves to meet the new challenges. This is one of the most important profiles of any HR department. Training and development can take place in

NOTES

various ways. An organisation may like to give on-the-job training to the fresh incumbent whereas, the oldies may be sent for some advanced training to back up the vast experience which they already have.

Compensation and Benefits

The HR department of any retail business needs to have policy guidelines regarding compensation and miscellaneous benefits to be given to the employees. For this the HR department needs to know similar policies and guidelines in similar organisations. Benchmarking is very essential as far as compensation and benefits are concerned. Compensation and benefits at any point of time are the best way to satisfy the employees at the lower and middle level of management.

Labour Relations

The HR departments should know the rules and regulations with respect to labour relations. A harmonious labour relation always argues the efforts of an organisation to achieve its goals. All regional organisations besides having an HR department also hire legal practitioners for consulting from time to time. This has become necessary since each state has got different set of rules for human resource management with some standard rules.

3.8 TASKS PERFORMED IN A RETAIL FIRM: (BRANDING)

We can broadly divide the tasks performed in a retail firm under four heads:

1. Strategic
2. Merchandising
3. Group Management
4. Administrative/Legal.

Strategic Management

Devising and implementing a retail strategy. For devising a retail strategy the retailer must have a very clear understanding and complete information of the following:

- Target market
- Different retail formats catering the target market
- Present buying trends and preferences
- Various tasks to be performed within the organisation
- Accordingly designing an organisational structure

- Site selection, location analysis, layout details
- Design promotional strategy.

Strategic management is completely under the domain of top management. There can be circumstances where advisors or consultants are hired by the retailing firm in this regard. Firms need highly experienced and qualified professionals to take such high level decisions. Here it is worth mentioning that in small sized family owned retail businesses strategic decisions generally are a family affair.

Merchandising

Merchandise sourcing is the prime task of every retail organisation sourcing of merchandise is the major component of merchandising process as a whole. For sourcing of merchandise a retailer has to go through the following steps:

- Search for vendors dealing with the specific merchandise
- Based on specific requirements valuate each vendor
- Negotiate terms and conditions with them
- Place orders
- Examine quality of goods received with negotiated specifications
- Communicate grievances if any/follow up
- Make payments.

After the merchandise is acquired a retailer needs to take full care since it's the single most valuable input in retail. A retailer can prepare and implement a merchandise control plan. This process includes the following steps:

- Based on past experience develop a merchandise budget.
- If it's a chain store allocate merchandise to stores.
- Review stock position and merchandise off take.

These processes need seasoned personnel with years of experience. Here the need is for an experienced person rather than high qualification. Finally the most critical task in merchandising is pricing the merchandise. A retailer has to have complete information about existing price ranges in the market. In the present day competition is so intense that a small error in the pricing could lead to loss of sale as well as long term reputation of the firm.

A retailer may have to adjust his prices based on the market feedback. Generally the pricing task is done by the top management or by the owner himself in case of small scale or family owned retail firms. However it's worth mentioning that the shop floor level staff plays a big role here. They are in direct contact with the customers. Thus they can predict the best saleability of the merchandise at a given price. Besides this they are competent to state an ideal price for given merchandise.

NOTES

Shop Management

Store is the pivot for any retail store. Managing the shop involves various issues to be looked into like:

- Store facilities
- Layout and display
- Selling of merchandise
- Customer grievances
- Complementary services like gift wrapping home delivery
- Prevent shoplifting and inventory shrinking
- Receive physical inventory and intimating for the procurement of the same.
- Merchandise repackaging/alteration.

To execute all these tasks one needs to:

- Conduct manpower planning
- Prepare manpower requirement
- Recruit and hire store personnel
- Train them
- Plan work schedules
- Motivate people to perform
- Evaluate individual performances.

3.9 ORGANISATIONAL CHARTS

These are charts which demarcates functional areas for various positions. Big retail chains may have scores of tasks to fulfil thus their charts are more elaborate and complex. However small retail organisations may not have such requirements. Geographically as well as demographically their scope of business is much small. Thus they may have a simple organisational chart.

Type of Organisational Charts

Functional chart: This organisational chart based on company's functional activities.

Divisional chart: In case the retail organisation has various divisions or business units then such a chart is required. In case the divisions are based in a region wise manner then regional charts can be made. Product/Brand based chart. If the responsibilities have been divided on the basis of various product ranges then such a chart is feasible for the firm.

3.10 LONG-TERM AND SHORT-TERM HR PLANNING

A retailer has to focus on overall growth of his organisation. Once the retailer is aware about his organisational growth pattern it becomes easy for him to project future growth. Company growth has got all around implications for the organisation especially human resource management. In the present day when every retailer feels the urge to expand into multiple stores or diversify into multiple products ranges. This immediately triggers the need for additional human resources. At any point of time the quality of human resources makes a big difference in the performance of the retailer. Performance here is defined by the sales volume achieved by the retailer. Very often it has happened that a retailer has not been able to expand due to lack of skilled employees or less than required number of employees. It has also been observed that if a retailer has tried to expand his business even after having this handicap. Then it has resulted in major losses. Thus under all circumstances a retailer should look into his long-term needs and have a HR plan designed accordingly.

Despite the significance of long term planning and analysis in the present context the importance of short term planning cannot be denied. Short term planning is generally of less than one year duration. India is a nation of many festivals and seasons. Market picks up and also goes down accordingly. Diwali, Dushehra, Idd and Christmas are the festivals which the retailers look upon. Similarly season and off season are two terms very close to them. All such occasions need specific short term planning. This scenario has lead to another reality. Suddenly there is a need for part time employees.

3.11 PART TIME EMPLOYMENT

This type of employment is a result of coincidence of similar needs. Youth are presently on the look out for augmenting their pocket money by doing some short term assignment or getting some exposure. On the other hand retailers do need additional staff at times but not on a permanent 10 AM to 10 PM basis. Availability of such-people helps them, greatly. These assignments are dignified and at the same time paying. However the retailer should be cautious about making such recruitments. Point to be remembered here is that part time employment does not mean casual and irresponsible attitude on the part of the employees. The retailer must ensure that he is hiring serious people even though they may be part time.

NOTES

3.12 HUMAN RESOURCE RECRUITMENT

Recruitment means the critical function of the HRM Department. Each retail store aims for hiring employees to fit into the organisation very well. The recruitment process aims at identifying and attracting the best potential employees. Recruitment process can be divided into two.

- Preparing a clear profile of the potential employee.
- Analyse and prepare a profile of the type of potential employees desired.
- Calculate the number of employees required at present.
- Identify potential employees who will accept the offer.

From amongst the potential employees who are likely to accept the offer shortlist those who may stick to the organisation for long.

As the first step of the recruitment process we need to prepare a clear profile of the potential employee. This can very well be done the job description which will tell you as to what are the skill sets which are needed in the prospective employee as well as his emotional quotient.

Once the profile is ready the second task is to decide on the kind of employee to be hired. For instance if an apparel store behired employees in the front office to interact with the customers they would definitely look for a friendly, honest, sincere, and are very keen observer candidate. Thus we can clearly see the need of self-motivated enthusiastic people that to youths. The next task is to assess and decide on the number or candidates to be hired.

Finally, to identify the potential employees who are most likely to accept the offer and join the organisation. Not only this, they need to ensure themselves to recruit such candidates who will not only accept the offer but would like to continue with the organisation for long. This is the most critical stage of the recruitment process since, there can be very good candidates but the likelihood to continue with the organisation may be very grim.

3.13 RECRUITMENT POLICY

Each retail organisation should necessarily have a recruitment policy as a part of their human resource policy. This comes in very handy to guide the HR department in finalising the recruitment process. Policy guidelines of any organisation are necessary since they, develop the culture of the organisation and at the same time maintain transparency in operations.

3.14 THE ROLE OF REFERENCES

Each retail organisation while hiring and employing would like to be sure about the competency and integrity of the candidate. Therefore each organisation nowadays appreciates letters of reference from credible persons. This to some extent reduces the risk of hiring strangers without any information about their integrity or character. Retail being a human centric business it is most essential that competent and deserving candidates are given the jobs.

3.15 INTERVIEWS

This is generally the active stage of the recruitment process. It follows the preliminary stages of advertisements, short listing of candidates from the received application forms. If need be a preliminary information seeking is also done from the respective references. In present context it's very critical that only people with integrity enter the organisation as employees. Interviews are usually one to one interaction between the applicant and retailer representatives. Here it is worth mentioning that some retail outlets in India do conduct specially designed tests for testing various aptitudes of the candidates. Such testing helps the employer to get a better picture of the potential employees. This is more helpful in the rejection process whereby the employer has to take the difficult decision of whom to hire and whom to reject. However, it is advisable, that such advance tests to be conducted with short listed candidates only.

3.16 SOURCES OF JOB APPLICANTS

It is very essential that the retail organisation knows the various sources of job applicants. For instance if a retail organisation wants to pick up youngsters mostly college graduates then it would be a wise decision to visit the college campuses. However, they have to be very sure about their own image in the market and then visit such campuses which can appreciate and associate themselves with such a store brand. A retail store has many avenues to attract prospective employees to apply. Such sources can be:

- Through referrals which can be both internal and external
- Competitors can be an important source on sourcing middle and upper level management personnel. This is, very effective when a particular individual is not finding opportunities of growth within his present employment.

NOTES

- Former employees can be a good source for employment. It is just possible that a middle level employee in a big retail store joins his smaller store as a store manager. In future he can be targeted for a similar position in the store.
- Placement/employment agencies
- Recruitment at college campuses with a focus on students with major in courses like retailing or marketing.
- Various job web sites like monster.com, Naukri.com have come into existence to further the cause of employment. These can very well be used for sourcing of prospective employees.
- Local, regional or national newspapers.

3.17 ORIENTATION

It is essential that the selected candidates are not directly absorbed into the organisation. They should be first put into a small orientation programme. Such programmes help the new employee to be comfortable and confident about his role in the firm. More importantly he/she develops an identity as member of the family and not as an-alien.

Training

With rapid advancement of latest technologies and ever changing market scenario training has become very important for the success of a retail firm: Training can be imparted in various ways based on employee requirement and firm's budget.

Supervision

It involves direction from superiors. Manager has to direct the employees to ascertain the productivity of the employees. More importantly he has to ensure that the tasks are completed in time.

Evaluation

Based on performance standards employees are evaluated as per their performance.

3.18 PERCEPTION OF SERVICE QUALITY

Every employee of any retail organisation need motivation at all points of time. You should appreciate all those employees in any retail store working

under stressful atmosphere at times working hours can be long and boring as well as mentally demanding. Each employee likes to be encouraged and motivated. The need and type of motivation differs from position to position, and person to person. Generally we can divide motivation for retail employees into monetary and non monetary (motivation) incentives. Non monetary incentives generally comprises of appreciation, awards, trips, enrolment for advanced training programmes etc.

There are several theories of motivation which have developed over a period of time. Three very important theories are:

1. Abraham Maslow's Hierarchy of Needs Model.
2. Herzberg's two Factor Theory of Motivation.
3. McGregor's Theory X and Theory Y.

Maslow's model stresses that human beings have different types of needs which can be categorised at different levels. According to the theory, depending upon the satisfaction of lower levels of needs an individual moves up wards.

1. Abraham Maslow's Hierarchy of Needs Model

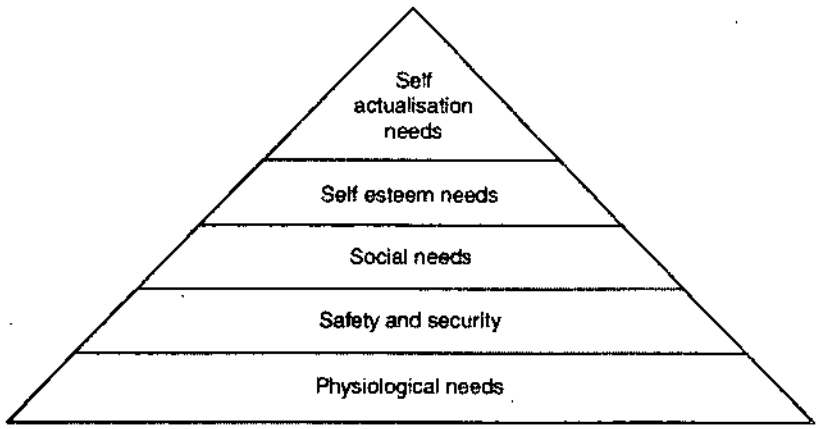


Fig. 3.1

Physiological needs comprises of the basic needs of the human being like food shelter and clothing. This is the need which is phased by an individual in the starting of his career just out of college. At this point of time the individual looks only for the basic requirements of his life. Once such needs are satisfied an individual aims for the next levels of safety and security in his life. At this stage an individual is looking for permanency of job and some sort of settlement in life. This stage is characterised by meeting to basic necessities but does not have a sense of security. Once, the permanency comes in an individual starts aiming for recognition and social status. At this stage an individual aims for high social status and looks forward to achieve social needs by joining clubs/associations. The last stage is where all the necessities have been met. This is the stage where money, status or any

NOTES

other type of need does not remain unsatisfied. We can say that an individual develops this feeling after spending a major part of his life in achieving all his goals.

In relation to the stage of life of an individual a retail store can be successful in motivating accordingly. For instance when you look forward to hire a very senior position person, you can keep in mind that, such a person may not be looking for monetary growth as. the prime factor. Therefore you have to present the opportunities of a respectable and important position for attracting such candidates. On the other hand a youngster who has just graduated and is looking forward to avenues to start his career would have totally different needs. Such an individual if not experienced, would only look for a basic subsistence level.

1. Herzberg's two Factor Theory of Motivation

This theory classifies the two factors of motivation as, hygiene factors which are basically the physiological and safety needs of Maslow's model. The motivators here are the esteem needs and self actualisation. According to the fury lies in tatters are extrinsic to the individual and motivators are intrinsic to the individual.

2. McGregor's Theory X and Theory Y

Theory X simply lays down that employees if not supervised and not motivated with negative motivation would not like to contribute to the cause of the organisation at all. On the other hand, theory Y views employees as self motivated and enjoy work but would also like to contribute to the organisation without any supervision or pressure. Another theory which was propounded on the basis of these two theories was theory Z derived from the above theories to prove that individuals need both positive as well as negative motivation depending upon the circumstances. Therefore, it can be suggested to the human resource department of a retail store to motivate their employees depending upon an individual mindset as well as the stage of his life.

These theories of motivation were propounded based on years of research. However a retail store can adopt any of them or create a hybrid from these depending, upon the ground realities.

Motivating Employees Through Job Enrichment

Increasing features of a job, job contents and work experience to work planned programme is called job enrichment. The sole purpose of job enrichment is to increase work motivation and work satisfaction which in turn increases the productivity of an individual employee. We can look into five areas which can enrich the job.

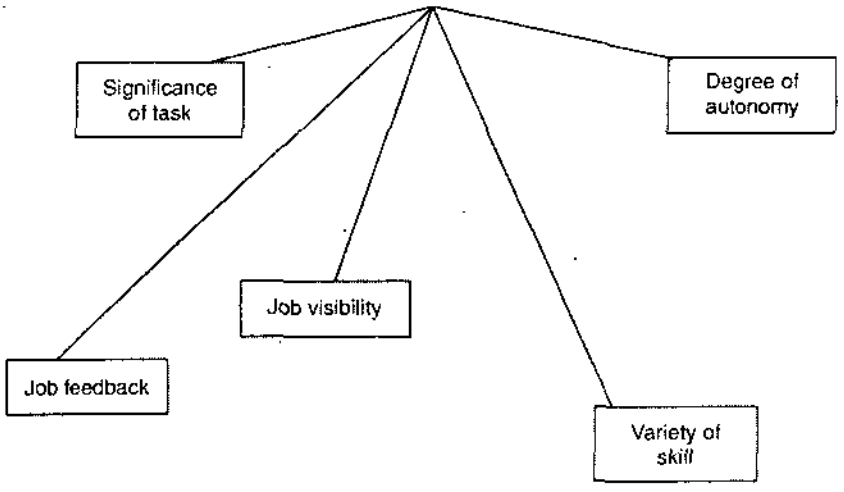


Fig. 3.2

Each task has its impact on the employees as a whole, even if in an abstract manner. By increasing the significance of the task by making it more critical for the overall success to complete the job then, we can enrich their particular assignment or task.

If regular feedback about the performance is given to individual employees and remedial steps taken thereon to help the employees achieve their targets and further reward them then, we can successfully enrich the job.

There are individuals who keeps on working yet without getting any recognition despite being hard-working and sincere. By recognising the significance of their contribution one can enrich their jobs. This can be done by bringing in more visibility to their contribution.

Every job requires certain skill to perform and execute. If one can enhance the scope of that job whereby, an individual requires additional skills to execute then the job becomes more challenging for the employee. This is due to the fact that over a period of time each job becomes monotonous and mechanical, thus reducing the efficiency. Thus by increasing the variety of skills you can very well enrich the job is to for a job to become more significant/ critical it is necessary that the element of accountability is enhanced. In this regard if we can provide more autonomy to complete the job, enrichment takes place naturally.

3.19 SUMMARY

- The first step in effective human resource management in retail is to look into the organization of the store.
- The strategic objective of human resource management is to collectively integrate the capabilities and goals of the employees with the goals of the retail firm.

NOTES

- The HR department of any retail business needs to have policy guidelines regarding compensation and miscellaneous benefits to be given to the employees.
- Merchandise sourcing is the prime task of every retail organisation sourcing of merchandise is the major component of merchandising process as a whole.
- Each retail organisation should necessarily have a recruitment policy as a part of their human resource policy.

3.20 REVIEW QUESTIONS

1. Explain how you will assess human resource requirements of a retail organisation.
2. Explain the relevance of organisational charts in manpower planning.
3. Explain the significance of orientation programme. Should each employee in a retail organisation undergo the same orientation programme?
4. What should be the profile of person working in the:

   (*a*) Merchandising department,

   (*b*) Warehousing department,

   (*c*) Sales department,

   (*d*) Administrative Department.

   Explain why do you think so?

3.21 FURTHER READINGS

1. *Effective Mentoring for Developing Human Resources,* Parth Sarathi, Manak, 2009.
2. *Human Resources Management in India: Issue and Initiatives*: Edited by V. Sita, New Century Pub. 2008.
3. *Managing Human Resources: Strategic Approach to Win:* Ajit Kumar Ghosh, Manas, 2002.

❑❑❑

UNIT 4 PRICING

NOTES

★ STRUCTURE ★

NOTES

4.0 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- know about the retail information system.
- explain the merchandise management retail pricing.
- discuss about the development and implementing plans.
- what is internationalization and globalization?
- describe the business and international management.

4.1 INTRODUCTION

You would agree that the right price can influence the quantities of various products or services that consumers will buy, which in turn determines the total revenue and the profit of the retail store. Hence, sound pricing decisions are important to successful retail business. Systematic and informed decisions regarding pricing strategies must be made while considering a wide range of issues. Profitability is a prime objective of any retail firm which covers the cost of buying merchandise, costs of running business (rent, salary, maintenance cost) and finally to invest in further expansion of the retail business. Profitability of retail business is subject to be influenced by two aspects; one is a profit margin on the offerings that are sold, and second is cost involved with selling the merchandises.

Retailers are required to have understanding of the characteristics of the people who shop at their respective store, reasons why they shop at their store and degree of consistency between the price perception of consumers and store's price philosophy. Understanding of the customer segment is important for the retailers in evolving pricing strategy philosophy of the store. Pricing strategy philosophy contributes in the positioning of the store in the market and in turn giving store image, which provides it distinctive identify from rest of the competitors in the market.

4.2 RETAIL INFORMATION SYSTEM

Using Porter's model to analyze these factors for strategic pricing, they can be broadly segregated into four "forces"—Customers, Suppliers (manufacturers, wholesalers and other suppliers), Competitors and Government.

NOTES

1. Customers

Every retailer needs to understand the price sensitivity of customers that form his target segment. This price sensitivity is based on various personal, social or geographical factors that presents a major challenge for retailers while setting prices. For example, in the case of the Bangalore-based coffee chain, Cafe Coffee Day (CCD), it plans to expand and set up 200 stores across 60 cities before the end of 2004. Here, it has chosen to increase its presence in the small cities because it is observed that the youth in such small towns have adopted the lifestyles of their counterparts in metro cities. The only challenge company feels is pricing. A cup of coffee at ₹ 35 is accepted in metro cities but in small towns such price points may be difficult to sell. The company feels that it may not be possible to change prices in order to retain uniformity and also to build its image among the customers.

Keeping this in mind, the following points can be remembered while evolving the pricing strategy:

1. One needs to know their customers' desires for different products and whether price is an important issue in their purchasing decision?
2. A price range that people will pay for the product need to be established *i.e.*, what is the high and low price that the merchandise will have to fall within for someone to buy the product?
3. Consider an apt pricing strategy, which would be compatible with your store's overall retail marketing mix that includes merchandise, location, promotion, and services.

The retailer is faced with a tough challenge of dealing with price sensitivity and its variability while considering separate consumer segments. Let's discuss on how they target consumer segments based on price sensitivity.

Economic oriented: They don't differentiate among various retailers on other factors other than price such as store image, service, etc.

Convenience oriented: They are willing to pay higher prices for reduction in the shopping effort. So, they tend to prefer buying from websites like phoolwala.com, or establishments like Domino's Pizza where there are no delivery hassles and orders can be placed quickly.

Image oriented: They differentiate between various stores on the basis of image and the products they stock, and not the price. They look for prestige value from their shopping. These customers would prefer retailers like Tiffany, Allukas, Dewan Saheb or restaurants like Ruby Tuesday.

Variety oriented: They prefer retailers who have a wide range and assortment to choose from and charge fair prices. Retailers that would attract such type of customers are Sears for tools and appliances, Nallis for sarees, etc.

NOTES

Loyalty oriented: These customers purchase at familiar places, where the retailer or staff of the retail outlet, recognizes them. They will pay slightly above average prices, or on the contrary they may look for discounts since they have been loyal to that retailer. Indian customers generally look for personalized transactions while buying jewellery. This aspect of consumer behaviour is somewhat peculiar to India because of the huge gray and duplicate goods market.

Key effects examining price elasticity: While still on discussion about customer, lets touch upon an important point of price elasticity on customer's demand. Price elasticity is a measure of the responsiveness of demand to a change in price. If demand changes by more than the price has changed, the good is price-elastic. If demand changes by less than the price, it is price-inelastic. The following are the key effects while examining price elasticity.

Difficult comparison effect: Customers are more sensitive to price when it is easy to compare competing offerings. A retailer cannot charge higher prices on Amul Butter, which is widely available and where customers can easily compare prices. So, many retailers have developed their own private label merchandise. For example, Food World sells its own branded rice. It is very difficult for the customer to compare prices of private labels.

Benefits/price effect: This defines the relationship between people's perception of the benefits they receive from a product and the price they pay for it. For example, a customer would buy a Mont Blanc Pen at a much higher price even if similar quality pen is available at a lower price.

Situation effect: Customers' sensitivity to price can differ depending on the situation. For example, when people go on an outing to a hill station then they don't hesitate to buy an item for double the price that they can get in their local market. This is because this shopping is a part of the entire outing experience.

Many restaurants take advantage of the situation effect. Their lunches cost less than their dinners because customers expect to pay less for a lunch. On the other hand, "low price" retailers maintain a utilitarian environment with minimum decorations.

2. Suppliers

Both the retailer and the supplier like to have control and want to price according to their own image, goals and objectives. With the advent of Internet manufacturers are selling their goods directly to the final customer. In case of an exclusive distribution net-Work, the retailer carries products of the

particular manufacturer only. The manufacturer is able to exercise fairly large amount of control in this case. Then, some manufacturers first estimate the price at which the goods would be sold to the customer and subtract the required profit margin of the retailer/wholesaler to determine the selling price to the retailer. For example, if the estimated final price is ₹ 100, and the accepted profit margin is 25% on sales, then the manufacturer would sell to the retailer at ₹ 75. So if the retailer buys at ₹ 75, he can make a profit of 25% on the selling price of U10V *i.e.*, ₹ 25. Apart from the manufacturer or wholesalers, the other suppliers to the retailer are his employees, landlord, suppliers of fixed assets, etc. Following characteristics influence the bargaining power of supplier:

- Number of supplier, few large suppliers or fragmented source of supply,
- Number substitutes for the particular merchandise,
- The switching costs from one supplier to another,
- Supplier's level of forward integration in order to obtain higher prices and margin.

3. Competitors

Competitors, are the most influential factor in determining the price. The competitive environment affects the freedom of a retailer to fix prices to a great extent. Competition can range from being perfect competition to a monopoly.

- **A perfectly competitive market** is the most competitive market imaginable. Products are homogeneous and information is perfect. Everybody is a price taker where firms earn only normal profit. If firms earn more than that (excess profits) the absence of barriers to entry means that other firms will enter the market and drive the price level down until there are only normal profits to be made.
- **A monopoly** is said to exist when the production of a good or service with no close substitutes is carried out by a single firm with the market power to decide the price of its output. It decides its price by calculating the quantity of output at which its marginal revenue would equal its marginal cost, and then sets whatever price would enable it to sell exactly that quantity.
- **Oligopoly** is when a few firms dominate a market. They either behave so by forming an alliance or plan informally to prefer a non-price competition. When they do compete on price, they may produce as much and charge as little as if they were in a market with perfect competition.

NOTES

An example of oligopoly is the cola, industry where there are only two major players, Coca Cola and Pepsi.

- **Monopolistic competition** lies somewhere between a perfect competition and a monopoly. It is also known as an imperfect competition. Here, there are fewer firms than in a perfectly competitive market and each can differentiate its products from the rest somewhat, perhaps by advertising or through small differences in design. As a result, firms can earn some excess profits, although not as much as a pure monopoly, without a new entrant being able to reduce prices through competition.

4. Government

Legal issues affecting the retail environment can be broadly divided into two. One that affects the buying of merchandise, such as price discrimination and vertical price fixing and the other that affects the customer (horizontal price fixing, predatory pricing, and bait and switch tactics). Let's examine the different techniques of price setting.

Price discrimination: This means when a vendor sells the same product to two or more customers at different prices. This discrimination can occur between retailer and customer or between the retailer and his vendor. In the USA, price discrimination between vendors and their retailers is generally illegal, but there are three situations where it is acceptable.

Vertical price fixing: It involves agreements to fix prices between parties at different levels of the same marketing channel (*e.g.,* retailers and wholesalers). The agreements are usually to set prices at the manufacturer's suggested retail price. So pricing either above or below MRP is often a source of conflict. Retailers cannot sell above the MRP however. It is not permissible under law.

Horizontal price fixing: It involves agreements between retailers that are in direct competition with each other to have the same prices. Horizontal price fixing is always illegal since it suppresses competition while often raising the cost to the consumer. Suppose there are three stores in a locality. Two of them join hands and start selling groceries at very low prices, as loss leaders. If the third store is selling only groceries, he would lose sales and would have to shut shop.

Predatory pricing: This means establishing merchandise prices to drive competition away from the marketplace and it is illegal. A retailer can however sell the same merchandise at different prices at different geographic locations if the costs of sale or delivery are different.

In the Indian context, government exercises a very strong influence on the prices through its legal and policy directives. As per the Weights and Measures Act, it is illegal to sell goods above MRP (Maximum Retail Price). A customer can negotiate and purchase goods below MRP, but a retailer is not supposed to sell the product above the mentioned MRP. However, in practice, it is not uncommon to see goods being sold above their prescribed MRP. Like in the case of cinema halls, roadside dhabas and also sometimes in selling cigarettes.

4.3 RETAIL PRICING OBJECTIVES

Retailers are supposed to determine their objectives as first step in pricing. When deciding on pricing objectives retailer needs to consider:

1. The overall financial, marketing, and strategic objectives of the retail business;
2. The characteristics of product or brand;
3. Consumer price elasticity and price points; and
4. The resources available.

With these broad objectives, the retailer could be trying to fulfill four specific objectives such as:

1. **Profit-Objective:** The retail store may price its product with the objective of maximizing profits in the short run or long run or both. The objective of profit maximisation must be studied carefully because: it may lead to unethical practices such as overcharging or deceiving the customers. This in turn may lead to some form of intervention by either the government or consumer groups (NGOs). At other times, the marketer may price his products with the objective of obtaining only a target rate of return on his investment. This is particularly so with products in the mature stage of the product life cycle.
2. **Market Share-Objective:** The retailer or marketers may also price his product with the, intention of increasing his market share, or stabilizing his market share. He can set the price of his product lower than that of his competitors.
3. **Competitor-Oriented Objective:** The retailers or marketer may price his product to counter any existing or prospective move by his competitors. Retailer may deliberately price its merchandise low to:

NOTES

- Discourage potential retailer from entering the market,
- Advance the exit of the potential competitors and marginal firms from entering the market,
- Spoil the market of retail competitors with the eye on getting future benefits.

With a low price, the marketer can prevent price-cutting by competitors. At other times, the retailers may cooperate with his competitors by setting a common price. A good example of this type of pricing is very common among traditional business centres in India where all retailers dealing in similar merchandise set similar common prices. This practice is common among retailers of Beauty salons, Garment Retailers and Grocery etc.

4. **Buyer-Oriented Objective:** Another pricing objective adopted by retailer may be buyer-oriented. The aim of such pricing is to maintain socially acceptable prices and to be fair to customers. The prices of goods of super bazaars Margin free (Kerala) and Rythu (Andhra Pradesh) can be considered buyer-oriented as these retail chains practice the professed pricing objectives of bypassing intermediaries and sharing savings with the ultimate consumers. Most of the five star hotels stress on the kind of ambience and services extended by their hotel, as these are of prime concern to their customers. Tanishq, the jewellery retail chain, emphasises on the other elements of the marketing mix, such as heavier promotion and advertising, as well as highlighting the quality and the characteristics of their offerings primarily to justify the relatively higher prices charged by them.
5. **Government-Oriented Objectives:** The pricing of some products may be constrained by existing laws or may be influenced by government action. The prices of petrol, grocery items, vegetables in India are, to a large extent, controlled and influenced by government action. Consumer Protection Act 1986, Indirect Tax provisions and MRTP has a bearing on the pricing of the merchandise.
6. **Product-Oriented Objectives:** The retailers or marketers at times make their offerings more "visible" by means of pricing. Customers are usually attracted by the advertisements in newspapers highlighting special offers and discounts. With a lower price, the retail store can therefore catch the attention of buyers and this will help him to introduce new offerings, increase the sale of weak products etc. Many of the retail stores in India such as Big Bazaar are using these pricing techniques.

4.4 DEVELOPMENT AND IMPLEMENTING PLAN

NOTES

You would appreciate that Pricing strategies affect both margins and positioning of the retailer. Various pricing strategies can be followed by the retailer depending on his business objectives, the influence of other external factors and the impact of the pricing strategy on other aspects of the marketing mix. There are three retail-pricing approaches based on the long-term objectives of the pricing decision. They are:

1. **Discount Orientation:** Here low prices are used as the major tool for competitive advantage wherein the store portrays a low status image while profit margins are kept low to target price-based customers. The model works on high inventory turnover and lower operating costs. This is arguably the most common model in India because of the low per capita income and price consciousness. For example, Janpath market in New Delhi.
2. **At-the-market Orientation:** These kinds of stores normally set average prices. It offers solid service, a nice atmosphere to the shoppers, margins are average to good, and it stocks moderate to above quality products. Since this model caters to the middle class, it has a huge target market. Westside in India focuses on providing value for money merchandise for the entire family along with an international shopping experience. The private label of the company gives it the flexibility of a wide range of merchandise and also has the advantage of generating better margins for the company.
3. **Upscale Orientation:** Here competitive advantage is derived from the prestigious image of the store. The profit margins per unit are high, but coupled with higher operating costs and lower inventory turnover. These stores usually stock distinctive product offerings and provide high quality service, building up customer loyalty. The products stored generally go with the image of the store. Like such stores would stock Christian Dior perfumes and Rolex watches. It may be appropriate in situations of inelastic demand in which an organisation decides to keep its prices high.

These approaches may be implemented using various pricing strategies. Discount orientation may take the form of every-day-low-pricing strategy or high-low strategy. Up-scale orientation is reflected in premium pricing strategies. At-the market orientation is reflected in strategies that offer average prices for most products. Hence while stores like LifeStyle and Arcus do reflect an up-scale pricing orientation they do offer rebates and discounts at various intervals.

NOTES

Hence, the pricing approaches adopted by a retailer should be in accordance with the other elements of the retail marketing mix. The following table offers a representative list of the pricing approaches along with their complimentary retail mix strategies. This is only an indicative list and many retailers do follow a different set of combination to meet their specific requirements.

Retail Marketing Mix Variable	***Price below Market Price***	***Price at Market Price***	***Price above Market Price***
Location	• No parking • Poor layout • Inaccessible	• Central Business District • Proximity to competition	• Monopoly • Compatible location to target segment
Service attributes	• Self-service • Limited offerings • No salesmen support	• Support from sales people.	• Personalized attention to customers • Home delivery • Exchange facility • Customized offerings
Assortment	• Limited variety	• Medium variety	• Extensive assortment
Store environment	• Poor Quality fixtures, • Limited space to move • Untidy Wall shelves	• Compatible store environment • Arranged wall shelves • Better movement within the space	• Very Inviting and impressive store decor • Attractive Visual Merchandise
Nature of brands	• Unbranded, • Smaller manufacturers	• Best sellers	• Exclusive name brands

NOTES

4.5 RETAIL PRICING STRATEGIES

So, in order to select the various pricing approaches, certain effective pricing strategies need to be implemented in its support. The adoption of these strategies is guided by the basic pricing approach of the retailer.

Every Day Low Pricing (EDLP)

EDLP has been popularised by large international retailers like Wal-Mart and Home Depot. This strategy demands stability of retail prices below MRP (maximum retail price)-mentioned on the goods *i.e.,* at a level somewhere between the regular price at which the goods are sold and the deep discount price offered when a sale is held. In India, many co-operative stores have adopted this strategy. One store that uses EDLP is Big Bazaar. Here, goods are either sold below their normal prices, or some sales promotion scheme is available. Subhiksha also possesses the essentials of a discount store. Most of these retailers have discovered the benefits of adopting this EDLP strategy such as:

- Less reliance on price reduction by retailers
- Reduced need of advertising
- Improved customer service
- Better inventory management.

High Low Pricing

In High/Low pricing, retailers offer prices that are sometimes above their competition's ELDP, but they use advertisements to promote frequent sales. Nowadays, retailers also use sales to respond to increased competition and a more value-conscious customer. Some of the benefits of adopting such a strategy are:

- Same merchandise can be used to target different segments
- Interest is created amongst customers
- A quality image is created.

Leader Pricing

Retailers sometimes price particular fast moving products at a lower price to attract customers to the store. For example: A grocery retailer can sell eggs cheaper than other competing stores so that customers consider him while purchasing foodstuff Since the customer is also likely to buy milk, bread, flour etc along with eggs, these products are priced slightly higher. So, the profit foregone on eggs is more than recovered on other items of groceries.

NOTES

Sometimes, the fast moving products are sold at cost, or even at a loss. So, these are also called loss leaders. If the sale of other profitable products is insufficient to cover the losses incurred on sales of loss leaders, then this strategy can backfire. The retailer normally chooses his own store brands for higher pricing. Items such as pulses, rice, flour, etc are priced higher because it is also not easy to compare the price against quality offered by other stores.

Skimming Pricing

Price skimming is a pricing strategy in which a retailer sets a relatively high price for a product or service at first, and then lowers the price over time. It allows the firm to recover its sunk costs quickly before competition steps in and lowers the market price. However positive, there are some potential problems with this strategy such as:

- The inventory turn rate can be very low for skimmed products.
- Skimming encourages the entry of competitors. When other retailers see the high margins available in the industry, they may decide to quickly enter.
- The retailer could gain negative publicity if he lowers the price too fast and without significant changes in product profile.

Penetration Pricing

Penetration pricing is the pricing technique of setting a relatively low initial entry price, a price that is often lower than the eventual market price. The expectation is that the initial low price will secure market acceptance by breaking down existing brand loyalties. Penetration pricing is most commonly associated with the marketing objective of increasing market snare or sales volume, rather than short term profit maximization. Price Penetration is most appropriate when:

- Product demand is highly price elastic.
- Substantial economies of scale are available.
- The product is suitable for a mass market.
- The product is likely to face stiff competition.
- There is inadequate demand in the low elasticity market segment for price skimming.

Price Lining

Price lining refers to the offering of merchandise at a number of specific but, predetermined prices. Once set, the prices may be held constant over a period of time, and changes in market conditions are adapted to by changing the

quality of the merchandise. A limited number of predetermined price points are set at which merchandise may be offered for sale *e.g.*, ₹ 79.50, ₹109.50, ₹149.50.

NOTES

Psychological Pricing

Psychological pricing is a method of setting prices intended to have special appeal to consumers. This can be conducted in several ways to name a 0w,

Prestige Pricing

Prestige pricing uses high prices to convey a distinct and exclusive image for the product. This is done in order to evoke perceptions of quality and prestige with the product or service. Various clubs like Gymkhana Clubs and DLF Golf Club price their products to indicate exclusivity Similar strategy is R41owed by five star hotels like Taj and Radisson in terms of their menu offerings. For instance a glass of coke at Radisson could cost close to ₹ 75400 and Kababs at its famous Kabab Factory at ₹ 800–1000.

Reference Pricing

Reference pricing uses consumers' frame-of-reference that is established through previous experience purchasing the sports product or high levels of information search.

Traditional Pricing

Here, traditional pricing uses historical or long-standing prices for a sports product to determine the pricing.

Odd-Even Pricing

This is quite a popular. Here the prices are set at odd numbers (*e.g.*, $9.95) to denote a lower price or a "good deal" or setting prices at even numbers (*e.g.*, $ 10.00) to imply higher quality. Many discounters like Big Bazar in India and Wal-Mart in USA use odd prices to denote lower prices. Many retailers in Japan use even pricing to denote quality—a very important issue with Japanese consumers.

Apart from these, few other popular strategies of setting retail prices are:

Multiple Unit Pricing

Retailers use multiple unit pricing to encourage additional sales and to increase profits. The gross margin that is sacrificed in a multiple unit sale is more than off-set by its, savings that occur from reduced selling and handling expenses.

Bundle Pricing

It is the practice of offering two or more different products or services at one price. Price bundling is used to increase both unit and rupee sales by bringing

NOTES

traffic into the store. It can also be used to sell less desirable-merchandise by including it in a package with a product of great demand. Like a hotel can offer a 2 days stay for ₹ 5000/- inclusive of lunch, even though separately these two items (stay and lunch) would cost more than ₹5000/-. In many cases a retailer may bundle a set of extra-large T-shirts with large size T-shirts to promote the sale of the slow moving item. Same strategy is some times used for low selling shoe sizes.

Pre-emptive Pricing

Pre-emptive pricing is a strategy—which. Involves setting low prices in order to discourage or deter potential new entrants, to the retailer's market, and is especially suited to markets in which the retailer does not enjoy any market privilege and entry to the market is relatively straightforward.

Extinction Pricing

Extinction pricing has the overall objective of eliminating competition, and involves setting very low prices in the short term in order to 'under-cut' competition, or alternatively keep away potential new entrants. The extinction price may, in the short term, be set at a level lower even than the suppliers own cost of production, but once competition has been extinguished; prices are raised to -profitable levels.

Perceived-value Pricing

A method of pricing in which the seller attempts to set price at the level that the intended buyers value the product. It is also called value-in-use pricing or value-oriented pricing. If the perceived value is high the retailer can charge a premium price for the product. The example of well-established traditional independent retailers in small townships can be cited in this respect. They charge a premium price on their offerings because of quality and variety offered to their customers. Kala Mandir, the ethnic women apparel store in Ludhiana, provides exclusive collection of sarees and ladies suits to their customers at prices above the market average.

Demand-oriented Pricing

A method of pricing in which the seller attempts to set price at the level that the intended buyers are willing to pay. It is also called value-in-use pricing or value-oriented pricing.

Fixed and Variable Pricing

Most firms use a fixed price policy *i.e.*, they examine the situation, determine an appropriate price, and leave the price fixed at that amount until the situation changes, at which point they go through the process again. The alternative has been variable pricing, a form of first degree price discrimination, characterized by individual bargaining and negotiation, and

NOTES

typically used for highly differentiated—items, like real estate, unbranded garments, fresh vegetables and fruits etc. In India there are certain markets which are well known for bargaining *e.g.*, Gaffar market in Delhi, Fashion Street in Bombay, Ranganathan Street in Chennai, S.M street in Kozhikode, Kerala. There are some shops in markets like Sarojini Nagar and Lajpat Nagar in Delhi which specifically advertise that they do not bargain and have a "Fixed Price".

Considering all the above choices of pricing strategies, it is observed that very few retailers have a clear cut, simple to understand pricing strategy. It differs from time to time, product to product, location to location. Take a look at the below table to familiarize yourself with some of the issues faces by retailers while setting a price.

Pricing Issues and Store Policies
• Setting the price must be compatible with your established store policies and your desired image.
• Will a one-price system, under which the same price is charged to every purchaser of a particular item, be used on all items or is the price negotiable with the customer?
• Will odd-ending prices such as $1.97 and $44.95, be more appealing to your customers than even-ending prices?
• Will consumers buy more if multiple pricing, such as 2 for $8.50, is used?
• Should any loss leader product pricing be used?
• Will price lining, the practice of setting up distinct price points and then marketing all related merchandise at these points, be used?
• Would price lining by means of zones be more appropriate than price points?
• Will prices include applicable taxes for customer convenience?
• Will cent-off coupons be used in newspaper ads or mailed to selected consumers on any occasion?
• Would periodic special sales, combining reduced prices and heavier advertising, be consistent with the store image you are seeking?
• Has the impact of various sale items on profit been considered?
• Will "rain-checks" be issued to consumers who came in for special sale merchandise that is temporarily out of stock? Rain checks are written promises that the store will sell the merchandise that is out of stock at sale prices as and when the merchandise arrives.

NOTES

4.6 TACTICS FOR FINE TUNING THE BASE PRICE

Following are some of the tactics used by retailers to fine tune the base, price:

(*a*) Coupons

These are documents that provide a right to the holder to purchase at a reduced a price or entitle him or her to a discount on the product. The coupons are disbursed by retailers through various means, depending on the type of customers that they want to target, economy of distribution,etc. Sometimes coupons are issued in newspapers for cut-out; they can be given along with purchase or purchases of particular product/products, above a certain amount. *E.g.,* anybody who buys a television would get a coupon entitling him to avail of a discount on microwave oven purchases. Or, anybody who buys goods worth ₹ 5,000 would get a coupon to purchase ₹ 500 worth of goods free of cost. Coupons are used to attract customers to buy for the first time, convert those first-time customers to regular ones, induce large purchases and increase usage.

(*b*) Rebates

Rebate is basically money returned to the buyer on the basis of some portion of the purchase price. The buyer would return the empty packaging, or anything that would serve as a proof of purchase, and the retailer/ manufacturer returns the mentioned amount to the buyer. For example, one scheme could be that if the his future purchase. Or, if the pack is worth ₹50, then on returning the pack, the buyer would be returned ₹5. Rebates are used when the price is large, because for small amounts the handling costs do not justify rebates.

4.7 SETTING-RETAIL PRICES

To set retail prices it is important to understand some of the concepts and calculations related to it, basic methods employed for setting prices and factors like price elasticity and price sensitivity which impact the effectiveness of the pricing strategy.

The price that a customer pays for an offering comprises of two main components: the cost of the offering or the price that retailers pays to a supplier/ manufacturer, and the gross profit margin, which is selling price minus the cost of the product.

In the retail business, the cost of goods (costs of acquiring products) includes the price paid for the merchandise, handling, freight charges, and import duties. Operating expenses include rent, wages, advertising, utilities, and supplies.

(a) Markup

Markup is the difference between the price you pay for the product and the selling price. The markup can be established as a percentage of the cost or as a percentage of the retail price. A price based on markup percentage on cost is determined by adding a percentage of cost to the cost of goods as follows:

Cost of shirt: ₹ 20.00

× Markup % 25%

Markup amount ₹ 05.00

Cost of shirt ₹ 20.00

+ Markup amount 5.00

Selling price ₹ 25.00

Percentage Markup is expressed as a percentage of cost.

(Markup _ Cost of goods) × 100

Retailer can decide to use a standard markup percentage for all the merchandise, or have different markups for different products. The key is to make sure the average markup or gross margin is enough to cover the operating expenses and meet its target profit margins. When establishing the markup on particular merchandise, two points should be noted:

- The cost of the merchandise used in calculating markup consists of the base invoice price for the merchandise plus any transportation charges minus any quantity and cash discounts given by the seller.
- Retail price, rather than cost, is ordinarily used in calculating percentage markup. The reason for this is that when other operating figures such as, wages, advertising, and profits, are expressed as a percentage, all are base on retail price rather than on the cost of the merchandise being sold.

But while calculating such prices, it is essential to know the following important data:

• *Cost of Goods Sold (COGS)*

COGS takes into consideration every expense incurred to bring the goods to the point of sale, it includes other expenses besides the invoice cost of goods moved out of stock. COGS is the largest expense incurred by a retailer and the price is generally determined by adding a margin for other expenses plus profit to service and replace the capital. COGS would typically include:

NOTES

- The purchase cost of all the goods that have moved out of stock. This movement may be by means of sales, or theft, breakage and other losses. This purchase cost is the price charged in the purchase invoice. Trade discounts given in the invoice are considered (therefore subtracted from purchase price) however, cash discounts are not considered.
- Expenses incurred to bring the goods to the point of sale such as carriage inwards (freight), travelling expenses incurred by the buyer to purchase the goods, etc.
- Depreciation on the remaining stock at the end of the period.
- Transfers from other departments or branches.

Therefore, Cost of Goods Sold can be calculated by the given formula:

- Opening Stock (at cost or market price, whichever is lower) + Purchases and additions during the year (after including the costs as detailed above)
- Closing Stock (valued on the same basis as opening stock)

Net Sales

This is the total sales figures adjusted for goods returned by customers and allowances. Net sales is therefore, gross sales less returns and allowances.

Gross Margin (also Called Gross Profit)

It is the difference between net sales and the cost of goods sold. Net sales means sales adjusted for any goods returned.

Percentage Gross Margin (or Gross Profit Percentage)

This is the gross margin expressed as a percentage of net sales (Gross margin, Net sales) × 100.

(*b*) Markup and Margin

Markup is a percentage of the cost. Margin is the same rupee amount as mark-up, but expressed as a percentage of the selling price.

Example
Item costs ₹ 20.00; Item sells for ₹ 25.00
Markup is ₹ 5.00 or 25% of the cost.
Margin is ₹ 5.00 or 20% of the selling price.

NOTES

4.8 METHODS FOR SETTING RETAIL PRICES

Generally one of the following three methods could be used for setting retail prices—cost oriented, competition oriented and demand oriented method.

1. **Cost Based Method:** This is the most fundamental method of setting prices. The retailer adds a standard markup to the cost of goods to arrive at the selling price. This is a fairly simple approach an easy to implement. However, it ignores the prices set by competitors and the demand for the product.
2. **Competition Based Method:** This method means closely matching the prices of competing retailers. This method is very easy to implement, as it does not need forecasted demand as in the case of demand oriented pricing. A retailer merely follows his competitors and cannot differentiate himself from his peers. It does not allow a retailer to maximise profits because demand and costs are not considered while pricing. The competitive markup method is used to price the goods similar to those of the competitors. In effect, the markup is controlled by competitors and it fluctuates based on what the competitors are charging for their products and services. Retailers can price either above, below or at parity with the competition. A low-cost provider would try to price below competition while a retailer with high quality image, unique merchandise, etc would price above competition. Stores like Shoppers Stop, which has a significant brand image, sell above competitor's prices.
3. **Demand Oriented Pricing:** Demand oriented pricing should be ideally be used along with cost-oriented pricing. When these two are used in conjunction, the retailer can not only consider their profit structure but also the impact of price changes on sales. For example, if the customers are insensitive to price (the demand is price inelastic), an increase in prices would result in higher profits, as sales would decrease insignificantly. Similarly, if customers are price sensitive, a decrease in prices would actually result in greater profits, as sales increase much more to offset the decrease in prices. Demand oriented pricing, therefore, seeks to maximise profits.

4.9 PEOPLE IN RETAILING

While setting retail prices it is important to understand the impact of various price points on demand. In this context the various price elasticities need to be factored in for the calculation of price. While price elasticity is a characteristic of the product price sensitivity is a characteristic of the consumer. Price sensitivity in turn affects price elasticity.

NOTES

Price Elasticity

Price elasticity of an offering plays key role in the setting of prices. Price elasticity determines the extent to which demand for an offering responds to change in price. Retailers required to identify will customers still buy its offerings, even if the price is high? Or do significantly more customers buy the product if the price is low?

- If an offering is **price elastic**, a change in price will cause an even larger change in the quantity demanded. This usually means that if retailer lower price of its merchandise, the quantity demanded of product or service will increase.
- If retailer is selling **price inelastic** product or service, a change in price will cause less of a change in quantity demanded. So, whatever price you charge, your demand will be relatively stable. Items that are price inelastic usually have no similar items available, and no substitutions for the product exist.

Price Sensitivity

To determine retail prices, the price sensitivity of the customers needs to be determined price sensitivity is influenced by a number of factors like substitute awareness effect and income effect.

Substitute Awareness Effect

When there are a lot of substitutes available to the customers, and comparing prices among them is easy, the price sensitivity is high. The customers can switch easily if they perceive that the price they are paying is high.

Total Expenditure Effect

The customers are price sensitive when the expenditure incurred on the particular product is high. The expenditure is large both in terms of absolute rupees as well as a percentage of the customers' income.

4.10 MERCHANDISING IN RETAILING

The nature, role and coverage of retail merchandising are dimensions that are often a source of confusion for practitioners and researchers. In effect, this is because merchandising is a term that denotes two different, but related, aspects of retail management activity. Firstly, merchandising, or rather a merchandiser, can be understood as someone who has an important role to play in the buying function and who, in broad terms, typically has the responsibility for managing the financial dimensions of the process of product procurement and management. Secondly, a merchandiser, or more precisely, a visual merchandiser (the terms which will be used throughout this chapter

to distinguish this role), refers to someone who is responsible for the visual presentation of products, and in many instances, the general aesthetics of the retail outlet. Both of these dimensions of merchandising will be delineated within this chapter.

From an analysis of the job descriptions of more than 50 merchandisers employed by retailers across a variety of sectors and various national markets, it is possible to identify three prominent dimensions that are crucial to the role of merchandisers. These relate to:

1. Managing the financial performance of the product range.
2. Managing space.
3. The contribution of merchandising to the process inherent to category management.

Each of these dimensions will be considered in this chapter. Managing the financial performance of the product range Controlling and assuring the financial health of the buying function is a key responsibility of the merchandiser. This is achieved in three ways: managing the buying budget; controlling the gross buying margin and managing the open-to-buy.

4.11 THE BUYING BUDGET

The buying budget exists as a complement to the buying plan. It details, on an ongoing basis, the amounts available for the buying team to spend on products. It also serves as a mechanism for monitoring and reviewing performance of the buying function on a continuous basis.

The buying budget is typically developed by both the retailer's financial team and their merchandisers. In terms of coverage, it includes all of the principal buying targets for the company. The starting point for developing a buying budget is the generation of *sales targets* for the range to be bought. Sales targets are based upon forecasted sales for the halfyear period, and in most cases, for a monthly period too. The process of sales forecasting includes a full consideration of the performance, on a monthly period basis, of sales achieved in the previous year integrated with intelligence relevant to any projected prices changes and the anticipated impact of inflation/deflation upon future demand. Furthermore, it takes into account general market trends and seeks to anticipate the impact of these upon consumer demand.

Having established and verified the sales targets for the forthcoming period, the *buying spend* is then identified. This is the amount of money that will be available for the buying team to spend on ranges/products within the period. The reason why sales targets are established before the buying spend is defined is simple. No retailer wants to under- or overbuy.

NOTES

transportation, in-store stocking and merchandising—as well as from the head office, which manages and controls the process of product movement.

In defence of the use of direct product profitability, Harris and Walters (1992) suggested that it focuses attention upon all the revenues that are generated by a product item, as well as the costs associated with supplying them. As such, they contend that direct product profitability can provide very different insights into the actual profitability of a product compared to the indications provided by a review of gross margins.

While various applications of direct product profitability have been commonly used by retailers, especially within the grocery and DIY sectors, it must also be recognized that there are a number of difficulties associated with applying direct product profitability principles. For example, the process of establishing and applying direct profitability measures has been found to be complex and expensive (Borin and Farris, 1995). Furthermore, given that the process tends to focus attention exclusively upon the measure of a product's profitability, it has been criticized for encouraging more of a product rather than a customer need orientation among buying teams (Davies and Rands, 1992). Regardless of whether or not the merchandiser decides to adopt the principles of direct product profitability, it is incumbent on them to manage the costs that are attributable to the buying process. Generally, these costs will relate to mark-downs, transport and stock financing charges, as well as costs associated with supplier selection and product development, including packaging development and the like. It is common for a cost target to be set for a product category and for these targets to be expressed as a percentage of sales.

The *net buying margin* is the difference between the gross margin and the costs associated with the buying process. Again, it is common for the merchandiser to establish a net buying margin in order to monitor and control the costs associated with the buying process and to assure an acceptable net buying margin level. At this stage, however, it is important to remember that the net buying margin usually accounts for all costs accrued to the point when the product reaches the retail outlet. The net buying margin does not take into account the costs associated with retail operations.

4.12 ACTING ON PERFORMANCE TARGET INFORMATION

Each of these activities is concerned with measuring the performance of the buying process. However, measurement ought never to be an end in itself, but instead should also serve to provide a direction for taking action if the target performance, and particularly under-performance, requires it. If the range is under-performing, the merchandiser may advise the as follows:

- **Reconfiguration of the Product Mix:** This may require the buying team to focus their attention upon identifying the reasons for the poor performance of certain products or groups of products in the range. As a result, they may choose to alter the balance of the buy. For example, for a wine buyer, the sales performance may indicate that the choice needs to refocus upon cheaper lines or it may require that the range needs to be more inclusive of newly launched brands.
- **Reviewing the Product Pricing and Margin Mix:** In certain circumstances it may be necessary to reduce the retail price of under-performing lines. For those retailers that enjoy a powerful position within the supply chain, it may be that this is not at the expense of margin, since any price reduction will be adsorbed by the suppliers. Where this is not possible, it is vital that the merchandiser accurately calculates the volume of sales that would be required at the new, lower selling price in order to maintain margin performance.
- **Redefining the Sales and Profit Forecast:** This may be the only course of action available to buyers in situations where there is no obvious action that can be undertaken in order to remedy the problem of under-performance.
- **Gross Margin Under-Performance:** Under-performance with respect to gross margin does not necessarily require remedial action. In circumstances where sales are higher than expected and costs are lower, it may be the case that gross margin deficits are compensated by improved sales and better cost management performance. Furthermore, other than revising the gross margin projection, the merchandiser may direct a change in merchandise mix, whereby high-demand products, with higher gross margins, assume a proportionately greater role within the assortment. In certain circumstances, in order to protect the gross margin, merchandisers may elect to renegotiate the cost price with their suppliers or they may decide to increase the selling price. In difficult situations, it may be necessary for the merchandiser to countenance both forms of action.

4.13 MANAGING THE OPEN TO BUY

It is very unusual for a buying team to commit all of their orders at one point in time within the year or season. The proportion of spend and the timing of the buying commitment will depend upon the sector within which the retailer operates, as well as the type of product being bought and the amount of money that is available for the buy. However, in most sectors, the process of buying stock is often an ongoing activity. Within the grocery sector, for example, it is common for the buying team to commit a sizeable proportion

NOTES

of their budget to the ordering of staple lines (*i.e.,* those products where demand is constant and relatively consistent). However, a proportion of the buying budget will also be set aside to pay for newly launched lines and to top up orders for ongoing lines which have perhaps enjoyed an unexpected increase in sales.

Within the fashion sector, it was traditionally the case that the majority of the buying budget would be committed at the beginning of the season and that any remaining budget would be used in order to replenish the availability of high-demand lines. However, as the fashion market has become more dynamic, with customers constantly demanding new products to be available on an ongoing basis, it has become common practice for merchandisers to retain a significant proportion of the budget back in order that it can be spent throughout the season. This retention of buying funds therefore means that the buying team can easily replenish best-selling lines in order to maximize demand. Furthermore, it allows for greater flexibility in the buying process, in that the latest fashion looks can be incorporated as near to the point and time of sale as possible.

The process which allows for the ongoing process of buying is called the *open to buy*. Risch (1987) defined open to buy as the difference between the planned purchases for a season or period and the values of goods that had already been committed by the retailer. Management of the open to buy budget is usually the responsibility of the merchandiser. Successful management of the open to buy budget requires that the merchandiser accurately monitors the level of stock committed and received by the business and the levels which are committed but have not as yet been received. Furthermore, the merchandiser must also keep a close eye upon consumer demand on stock throughput so that they can reorder best-selling lines, as well as introduce new lines which are predicted to enjoy significant customer demand. In many cases, it is the careful management of the open to buy which allows for the replenishment of high-demand lines as these emerge, as well as the purchase of newly launched products which may very quickly generate high demand and contribute most to the overall profitability of the buy.

It is common for the open to buy to be managed on a monthly basis. The open to buy budget is comprised of the required stock holding (which is the sum of all products that are required in order to cover size/colour options in order to meet customer demand and assure a strong merchandise presentation) plus the estimated sales for the period plus mark-down allowances minus current stock holdings and stock currently on order. Table 4.2 details the open to buy budget for the shoe department of a major department store chain.

NOTES

Table 4.2. Open to buy for the shoe department for a major department store chain

Open to Buy for September 2002	*Retail Prices (£)*
Required holding stock	1050,000
Estimated sales for September 2002	560,000
Mark-down allowances	20,000
Total stock required	1630,000
Current holding stock	1200,450
Stock on order as at 1 September 2002	55,000
Total open to buy budget	374,550

Risch (1987) identified that the open to buy assists the buying team in two important ways. Firstly, it serves as an important planning and control device. Secondly, it acts as an important diagnostic tool in the valuation of merchandising activities.

As a planning and control device, the open to buy balances stock levels with sales demand. As such, it helps prevent an over- or an under-bought situation. In so doing, this minimizes the volume of lost sales as a result of an out-of-stock situation. Furthermore, a carefully managed open to buy budget ought to control the amount spent on goods within the financial limitations of the periodic merchandise budget. This should then reduce the number of mark-downs, increase sales and therefore protect, if not enhance, the gross margin target that have been set. Finally, the open to buy process allows the retailer to retain funds in order to reorder fast-selling lines, take advantage of cost price reductions provided by a supplier, as well as trial new lines as they appear on the market.

As a diagnostic tool, Risch (1987) suggests that the open to buy allows the retailer to identify planning errors, such as in relation to inaccurate sales forecasts. Furthermore, it helps identify buying errors with respect to a failure in recognizing emerging fashion trends and allows the retailer to take prompt corrective action. This approach also minimizes the difficulties associated with timing errors, such as in relation to the late delivery of goods within a season. In conclusion, a comment provided by a Senior Merchandiser for a DIY store group provides an interesting insight into the responsibilities associated with managing the open to buy budget:

Managing the open to buy budget requires keen analytical skills. Merchandisers need to monitor actual sales and at the same time try to predict future sales. It involves tracking the flow of goods into the business and making sure that the product winners and losers are correctly identified. It is about delaying the ordering or reordering decision to the very last

possible moment so that the products that come into the business are the correct ones that will sell quickly and at the highest price. It is complex and can be very rewarding. But it is not for the faint hearted.

NOTES

4.14 MANAGEMENT OF SPACE

Space has been identified as one of a retailer's most expensive resources. As such, space management decisions ought to be founded upon the principle of achieving the best profitability on this key asset. However, prior to a consideration of the issues associated with the effective management of space in store, it is important to first consider the basic principles that merchandisers adopt in order to allocate stock to stores.

4.15 STOCK ALLOCATION

Whether a retailer has five outlets or 500, it is unlikely that they will operate stores that are totally the same either in terms of their architecture or the nature of their business. Each will differ in terms of their size and shape, their customer base and the competitive environment in which they operate. As such, it is inevitable that the retailer must develop some set of stock allocation principles that will ensure that the correct type and amount of stock is allocated to the various and varying stores at a rate that matches local demand. A variety of allocation processes have been developed by merchandisers who, with product allocators, are vested with the responsibility for stock assignment and distribution throughout a store network. The most common stock allocation methodology that is used by retailers is that of store grading.

Table 4.3. Store grading and product allocation for a UK fashion retailer

Store Classification	*Store Type/Location*	*Product Allocation Features*
AA	Major city centre stores—Central London/Manchester/Glasgow/Edinburgh	• Full merchandise range • Full range of services • Trial merchandise • Emphasis upon specialist/premium ranges
A	City centre/out-of-town stores—Birmingham/	• Full merchandise range • Full range of services

NOTES

	Bluewater	• 70% of trial merchandise • 70% of specialist/premium ranges
B	Smaller city stores—such as Cardiff, Aberdeen	• 85% of merchandise range • Some services • Limited trial merchandise
C	Large town stores	• 75% of merchandise range
D	Medium town stores	• 65% of merchandise range
E	Small town stores	• 50% of merchandise range

Store grading requires that the store network is divided into subsets or clusters. The number of clusters is dependent upon the number of stores in the network and the differences that exist between and among these stores. For retailers that operate more than 50 or so stores, it is common for them to grade their stores into four or five cluster groupings. Stores that share the same cluster grouping are those that possess similar characteristics, normally in terms of their sales turnover, store size and location (such as city centre, out-of-town and local neighbourhood stores). The grading that a store receives directly determines the breadth and the depth of products that are subsequently allocated to them. Table 4.3 provides an example of the allocation procedures that have been adopted by a leading UK fashion retailer chain.

While grading systems, such as the one described above, are the most common method of product allocation used by merchandisers, many retailers also have come to recognize their need to include greater degrees of flexibility in their allocation procedures so as to maximize the sales and profit potential within their markets. As such, the most successful retailers, while broadly adopting the rigidity implied by the grading system identified above, will also allow merchandisers the freedom to allocate, albeit on a restricted basis, product lines to outlets regardless of their classification status. Decisions of this kind are very much motivated by the desire to exploit market potential where these arise and are a recognition that, in certain cases, the application of rigid allocation classifications does not fully acknowledge the variety that exists with respect to differences in consumer demand between similar types of outlet.

It is also important to note that store gradings may change in response to changes in consumer buying patterns and changes in the competitive environment. It is not uncommon for a retailer, especially within the food sector, to regrade a store (usually upwards if the store is commercially important to the company), in response to the entry of a new competitor in the market who may offer a more comprehensive product range. In these circumstances, the regrading of the store is clearly a defensive position in response to the threat of competitor attack.

NOTES

The drivers of space management Having allocated stock to stores, it is also the responsibility of the merchandising team to ensure that the stock is presented in a manner that is attractive to the consumer, is cost efficient and maximizes the profit potential of the space available. Decisions relevant to the management of space are influenced by a variety of key drivers. Firstly, the nature of the sector within which the retailer operates has a direct bearing upon the amount of space that is available. In certain circumstances, the amount of space that is required in order to display and facilitate the sale of stock may be minimal. For example, those stores that sell by sample, such as Argos, or luxury brand retailers, often require a minimal amount of space by virtue of the nature of their trading format (as in the case for Argos) or because of their premium market position (for example, Chanel). In other instances, the demands of a wide and deep product range, such as is the case for department stores, DIY and grocery retailers, requires that considerable amounts of space are available in order to adequately display goods, meet customers' demands and accommodate their service expectations.

As a result of the drive to assure greater efficiency and maintain and improve net margins, there has been a general shift in the retail sector towards the minimization of stock holding, especially at store level, in order to reduce financing, administration, handling and storage costs. As a result of this policy, retailers are now seeking to convert stockroom space into selling space and hold stock higher up in the supply chain, drawing it into stores nearer to the time of sale.

Given the importance of effective and efficient space management, a number of key principles have emerged with respect to best practice in the area. These include the need to ensure that:

- Sufficient space is allocated across the product assortment in order to meet forecasts with respect to sales, volume and profit targets;
- The best-selling and the most profitable lines are allocated space which maximizes their contribution potential;
- Customer service levels are met through maximum product availability;
- Displays are not undermined between replenishment cycles.

Davidson et al. (1988) identified that space management decisions are taken at three levels: strategic, tactical and operational. Each level fulfils different business objectives, operates within different time-scales and has different time horizons.

In most cases, the merchandising team will have little involvement in space management decisions at the strategic level, but they will, however, have to operate within the constraints and opportunities afforded by strategic-level

NOTES

decisions. In essence, strategic space management decisions are concerned with the number, location and design of locations. Decisions at this level invariably require significant capital investment and, as such, are a long-term commitment on the part of the retailer.

Tactical space management decisions are generally store based, and relate to issues of store design, layout, allocation of space and location to key product categories. Implicit within these latter decisions is the need to identify how the retailer's market positioning, sales and profitability targets, the expectations of customers, as well as format conventions, should impact upon the space allocation decisions. While these decisions are perhaps not as irrevocable as strategic decisions, it is important to remember that many tactical space management decisions, such as those relevant to the location of certain departments, may involve considerable cost. This is especially true of departments that rely upon specialist equipment, such as frozen foods, or require stockroom space, such as occasional furniture. A merchandising team is likely to be closely involved in tactical space management decisions. In many cases, it will be their expertise in sales and profit forecasting, as well as merchandise presentation, handling and storage, that will be drawn upon in order to make these tactical decisions.

It is at the operational level of space management that the influence of a merchandising team is clearly evident. Those operational decisions are essentially micro-level in nature and are concerned with the amount of space that is given over to specific products and brands. A variety of approaches have been developed in order to effectively manage the allocation of space to products. These are discussed below.

Productivity ratios seek to allocate space and a particular location to a product based upon the sales or profit that it is expected to generate. In the broadest of terms, productivity ratios will directly apportion space to the proportion of sales that the product will generate. Therefore, if a product generates 8 per cent of sales within a product category, it will be given 8 per cent of the available space. This has been described as the 'share-of-shelf = share-of-market rule (Borin and Faris, 1995). This approach is supported by the leading brand manufacturers, especially in the grocery sector, who recognize that this approach serves to reinforce their market leadership status. As a means of securing maximum space and the best location within store, the leading brand manufacturers are prepared to pay 'over-riders' to their stockists, which are cash payments for the maintenance of space and location agreements. Many smaller manufacturers perceive this to be an unfair practice and argue that its continuance undermines their ability to access customers and improve their market share.

McGoldrick (2002) suggested that there are a number of reasons as to why retailers ought not to allocate space and locations solely upon the level of

NOTES

sales that a product generates. In particular, he noted that this approach fails to recognize the relationship between the velocity of sales and their visual appeal. Furthermore, the fastest selling lines may not in fact be the most profitable, while displays that are dominated by fast-selling lines may give the impression of a narrow choice of product and of a predictable assortment. Finally, the market possibilities of newly launched products may be undermined by virtue of their lack of sales history, which may preclude a significant space allocation.

The *balanced stock model approach* seeks to balance issues of sales participation and profitability contribution with considerations relevant to the demand for the product, its characteristics and the associated display requirements. A number of computer packages have been developed, such as SpaceMax, Spacemaster and Spaceman (Pearson, 1993), which correlate these various demands and produce, in turn, a planogram. A planogram is a pictorial representation of a stock display and, according to McGoldrick (2002), brings together the numerical and visual dimensions of developing a stock layout plan in a way that ought to maximize sales and profitability, while still maintaining the visual integrity of the offer.

These space management computer packages are not solely available within the grocery sector. Lea Greenwood (1998) identified that fashion yield was a commonly used space management system that was used by clothing retailers in order to manage the visual presentation of stock, while maximizing their profitability. A major advantage of such packages resides in their ability to produce images that can be cost-effectively reproduced and sent to stores for replication.

A number of factors impact upon space allocation and location management decisions. Of the *external factors* that influence this decision making, the nature of the relationship with a supplier is crucial. For example, if the product category is dominated, in market share terms, by a small number of powerful manufacturer brands, any decision upon the allocation and location of space to these products will be determined by the demands of the supplier. As part of the terms of trade, which incorporate their agreement to supply to a retailer, a manufacturer may insist that their brand range is given particular prominence as evidenced by the number of product facings or the shelf location that the brand is given. The decision to comply with the manufacturer's demands may be further compounded by the amount of money that they are prepared to contribute to make their brand successful—such as through offering point-of-sale promotional material, contributions towards fixture costs, or promotional offers and discounts that they may provide. The merchandising team may also consider the degree of media advertising that is available to support the manufacturer's brand. This may be sufficient reason to provide a generous space allocation.

NOTES

Internal factors that may influence the allocation of space to products include considerations relevant to product attributes and their visual appeal. In circumstances where the product is perhaps fragile or of a non-standard shape, these features alone may determine the space allocation decisions. The composition of the product range may also determine the allocation, in that products that have a clear relationship are often grouped together. For example, in Sainsbury's supermarkets in the UK, newspapers, magazines, books, CDs and greetings cards are all grouped together because these are regarded as leisure/event products, and their location near to the store entrance/exit indicates their impulse nature. Many retailers also recognize that space management and location decisions must be customer focused and should contribute to the customer service orientation of their business. As a result, retailers such as Boots the Chemist and Marks & Spencer site their sandwich shops close to exits in order that lunch-time shoppers can purchase food quickly and easily. There are some instances, however, where it would seem that retailers are not always fully customer-centred in their stock location decisions. For example, department store retailers are often criticized for locating their children's wear departments on the top floor, which causes considerable inconvenience for parents trying to access these areas with young children. In many cases, the retailers adopt this strategy because children's wear is not the most profitable merchandise category. Furthermore, by placing children's wear on the highest floor, the retailer is trying to manipulate the movement of families within stores to make sure that they are exposed to as much of the store and its merchandise as possible.

4.16 MERCHANDISE ALLOCATION AND THE PRODUCT LIFE CYCLE

It would be wrong to assume that a product or brand retains the same level of importance to the retailer throughout its life cycle and that the space that it is allocated will remain static through time. Much rather, it is likely that the space allocation will alter as the demand and profitability of the product changes through time.

At the point of *introducing* a product, or a range of products, the amount of space that is allocated will be dependent upon the importance of the product to the retailer in terms of the product's exclusivity, its relevance to the retailer's market positioning, the likely customer demand and the communication strategy that will accompany its launch. The amount of space allocated will depend upon the retailer's assessment of the strength of the product in relation to these dimensions.

NOTES

If the launch of the product or product range has been successful and demand enables it to enter into the *growth stage*, then it is expected that the product will enjoy a greater space allocation, in order that volume sales can be achieved. This enables scale economies to be accrued and allows for the opportunities inherent to the line to be exploited, particularly if competition is limited.

At the *maturity stage*, it is common for retailers to aim to maximize cash flow and to maintain market penetration. At this stage, it may be possible to move these products to secondary locations without undermining sales levels because customer awareness and loyalty are high. It typically will be the case that, at this stage, the overall space allocation will be reduced from the levels achieved at the growth stage.

This will be motivated, in part, by the desire to provide space and opportunity to products that have reached the introduction and growth stages. When the *decline stage* of a product or range is reached, the amount of stock ought to have reduced and therefore the space that is allocated will also decline markedly. Indeed, not only will the space levels change, but it is possible that the location of the range will change to a tertiary area which has comparatively less customer traffic. Alternatively, at this point, the retailer may choose to place the range in an area of high traffic in order to clear any residual stock quickly and efficiently.

A review of the impact the product life cycle has upon the amount and location of space that is allocated to products underlines the elasticity that is inherent to the processes of space management. Indeed, as McGoldrick (2002) identified, the successful management of space necessitates strong quantitative qualities as well as sound commercial judgement on the part of the merchandising team. Without these required skills, the profitability as well as the image of the retailer is likely to be severely undermined.

The contribution of merchandising to category management, we have only just adopted category management and it is really a different way of doing business. In the past, we thought on a product-by-product, supplier-by-supplier basis. It was about us developing a sales plan and pushing to reach the targets. With category management everything is much more unified. Put simply, it is about seeing the relationships between and among the company, our suppliers and all our products and managing these collectively.

Merchandise Director, UK Grocery Retailer

The above quote gets to the heart of the defining principles of category management. McGoldrick (2002) suggests that the origin of category management can be attributed to the collaboration that was established between Wal-Mart and Procter and Gamble, which resulted in a new internal product management approach within Wal-Mart and a new sort of relationship

NOTES

between Wal-Mart and their major supplier. Varley (2001) defines the process of adopting category management as 'the establishment of a group of products as a category, which essentially have similar demand patterns, are reasonable substitutes for one another and can be viewed from a marketing viewpoint as a sensible strategic business unit on which to base a marketing plan' (p. 46). Similarly, the IGD (1997) suggests that category management is a strategic approach to product management, which emphasizes the importance of trade relationships in order to maximize sales and profits through the satisfaction of consumer need.

While category was promoted throughout the late 1990s as a revolutionary new approach to product management, it has to be acknowledged that category management is not commonly used in all sectors of retailing. It is most prevalent within the grocery sector, although DIY and department stores have adopted it within certain product areas It is least common within the fashion sector, and this is typically explained by the fact that product life cycles are significantly shorter, that—certainly within the UK market—manufacturer brands are less powerful and, as a result, retailer–supplier relationships are less stable and are more likely to be short term.

A category management approach typically results in the formation of a category management team. This team, lead by a category manager, is comprised of buyers, merchandisers, marketing promotions specialists, as well as product designers, technologists, logistics specialists and those responsible for the presentation of the category in the stores. In addition, the category team may also incorporate the inputs from specialists employed by their most important suppliers. Typically, the number of suppliers involved in these sorts of relationship within the category team will be small and, if more than one is involved, these will be mutually exclusive in terms of the products that they supply. It is impossible for a retailer to work with a large number of suppliers within a category team for two main reasons. The first is that the rivalry between and among suppliers would be detrimental to the collaborative principles of category management. Secondly, a large number of participants would be difficult to coordinate and manage and, as a result, would undermine the category management approach.

There are three main reasons for the development of an inclusive category team structure, which brings together the retailer and their suppliers. Firstly, it helps to create a clear focus upon the needs of the customer rather than solely the requirements of retailers and suppliers. Secondly, it encourages retailers and suppliers to consider themselves as partners that collaborate in order to profitably satisfy the needs of consumers, rather than as combatants that try to exert the greatest amount of power over the other. Finally, the improved integration that category management promotes between retailer

and supplier typically generates efficiencies and operational improvements which can improve the overall profitability of the procurement process.

NOTES

4.17 ADOPTING A CATEGORY MANAGEMENT APPROACH

A variety of proximate approaches have been identified in the literature with respect to the process of adopting a category management strategy. Fernie and Sparks (1998) identified a three-stage process, which begins with the *category definition* stage, which involves defining, from the prospective of the consumer, which products will constitute and contribute to the category. The second is the *category planning* stage, which involves determining the performance measures for the category, identifying the category's product mix and formulating a marketing strategy to support the category. The third phase is the *category implementation* stage, which involves the assignment of responsibilities to supply chain partners in terms of managing, controlling and monitoring category performance.

McGoldrick (2002) identified an eight-stage process for creating and managing a category management approach. This commenced with the process of defining the category and also included the process of identifying the nature of the merchandise assortment, defining all management and control responsibilities to supply chain partners, as well as a strategy for monitoring category performance.

As such, there is sufficient coverage elsewhere in the literature in terms of delineating the broad stages of category management implementation and development. However, what is less well defined in the literature is the identification of the actual activities and processes inherent to defining the boundaries of the category and the decisions that are relevant to assembling the product mix within the category. This stage in the development of the category requires significant analytical skills and it is invariably the responsibility of the merchandiser to establish the category in this way and at this stage.

Given the importance of this particular stage to the category development process, the key actions inherent to defining and assembling a product mix for a category are detailed below.

Stage 1: Analysis of Consumer Demand Trends within the Category

As a starting point, it is necessary for the merchandiser to define the broad parameters of the category in terms of its scope and coverage. This is achieved by considering the range of products that customers may need in order to

solve a particular problem or satisfy a particular need. For example, a merchandiser may begin by identifying the products that customers may need for laundering and caring for clothes washing in the home.

Initially, a review of internal sales data is crucial, since such a review will serve to identify the range of products that customers currently purchase. Furthermore, by analysing the sales histories of these products, the merchandiser is then able to establish patterns of demand and identify product sales trends. However, a review of internal intelligence alone provides a narrow and insufficient review of general market trends. Therefore, it is important for merchandisers to augment this information with external data, such as in the form of competitor reports which may consider, in particular, the breadth and depth of the product ranges that other retailers provide within the category area. Other important sources, such as trade publications, will identify other products that customers currently use, but which perhaps are not part of the retailer's current offer, while market intelligence agencies should identify imminent and recent product launches in the area.

At this stage, the inclusion of primary consumer research is also vital. By commissioning consumer research, which seeks to outline customers' attitudes and behaviours with respect to particular product areas, the merchandiser may obtain a clearer insight into how and why customers purchase particular products within the category. Crucial to this stage is the provision of a competent understanding of customers' need requirements, as well as some insights into what motivates their decision to purchase one product or brand over another. This research may consider the extent to which existing customers are satisfied with the company's current product range and offers an opportunity to identify gaps in the current merchandise mix.

Assembling the internal sales information, alongside the external data and the results of the primary research, the merchandiser is then able to define the broad parameters of the category, as illustrated in Figure 4.1. Having defined the scope of the category, the merchandiser is then able to progress to the next stage, which involves the review of the category mix options.

Stage 2: Reviewing the Category Mix Options

Drawing from the information obtained in the first stage, the merchandiser will seek to identify *all* of the products that the customer may expect to be included within a particular category. For each product type, brands that complement the retailer's market positioning will be considered, as will opportunities for own-brand development. Furthermore, the various variants for each product, such as in terms of pack size, product ingredients, product use and price level, will also be reviewed.

Having generated an inventory of product options for a category, it is then necessary for the merchandiser to evaluate each. The criteria that

NOTES

merchandisers use for this evaluation will depend upon a number of factors, including the sector within which the retailer operates, their market positioning, the product expectations of their customers, as well as the nature of the particular category. However, it would be expected that an evaluation would focus primarily upon some consideration of likely consumer demand for each, as well as an estimation of gross margin contribution, and an evaluation of the competitive advantage that the inclusion of each product could provide for the retailer.

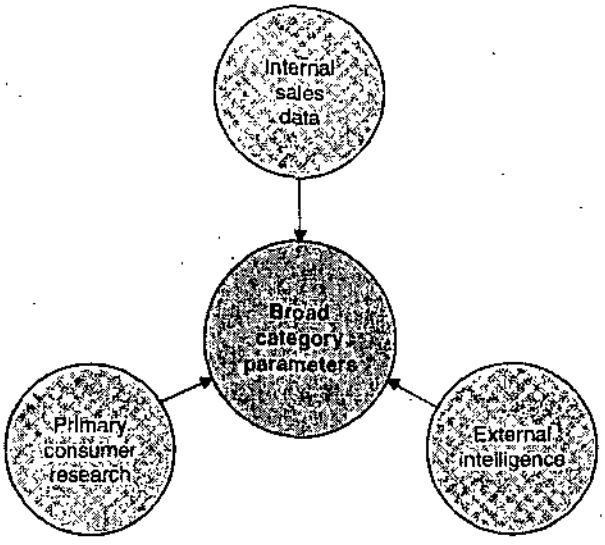


Fig. 4.1. *The process of defining the broad category parameters.*

Having sketched the potential product options within the proposed category, it is necessary for the merchandiser to collaborate closely with the relevant manufacturers and suppliers. This consultation requires that the supply base reviews the feasibility of consistently and profitably supplying the various product options within a category. It is at this stage that the importance of excellent retailer—supplier relations becomes apparent. As Varley (2001) suggests, the success of category management is ultimately dependent upon the extent to which retailers and suppliers can form strategic alliances that serve to support a competent evaluation of commercial opportunities based upon an efficient and cost-effective supply chain.

The sum of this information then enables the manufacturer to begin the process of assembling the range of products that is to be included in the category.

Stage 3: Assembling the Category

Based upon the information obtained from the first research stage, and the product-specific analysis undertaken as part of the second stage, it is then the responsibility of the merchandiser to recommend to the category management team the make-up of the category in terms of its overall coverage and structure. With a competent understanding of the nature of customer

demand, the availability of supply and the financial performance requirements of the category, the category management teams can then begin to identify the specific products to be included in the category.

This process usually commences with the identification of all possible product options within a subcategory. From this, consideration is then given to those product options that better match customer requirements in relation to function, price, size, use, quality and brand. These products are then selected for further scrutiny. The products that are finally selected for inclusion are chosen on the basis that these:

- Collectively satisfy the product requirements of the majority of customers in terms of product function, pack size, quality, retail price and brand;
- Present the customer with an impression of sufficient and reasonable choice;
- Share similar characteristics to be reasonable substitutes for each other;
- Are likely to have, if not similar, then certainly predictable, demand patterns;
- Satisfy the business's requirements in terms of profitability and sales levels.

Table 4.4 lists the category composition for the home laundry category for a UK supermarket retailer. The category was developed by using the three stages identified above. It is interesting that as part of their review of the category, the company reduced the total number of product options in their range by 57 options, despite the fact that they had also introduced the stain removal and accessories subcategories for the first time. As a result of this initiative, home laundry sales increased by 17 per cent in the first year and the gross margin for the category improved by 4.9 per cent.

According to the Senior Merchandiser responsible for the category, the improvement in performance can be attributed to:

- Reduced product duplication resulting in improved scale economies;
- Improved buying terms as a result of a more concentrated buy;
- Reduced operational costs related to storage, handling, etc., as a result of the elimination of 57 product options;
- The introduction of new, premium price lines with significant volume demand.

It would be wrong to suggest that the involvement of the merchandiser in the category development process ends at this stage. Much rather, the merchandiser's role is significant in the process of managing the profitability of the category, and will be involved in setting performance measures, as well as in the operationalization of the category at store level, through the

NOTES

allocation of stock to stores and the allocation of space to specific products within the category. The nature and extent of the ongoing involvement of the merchandiser in the category development process is clearly delineated by the comments of a Merchandise Director for a food retailer who provided information in support of the development of this chapter. He said:

The success of category management is predicated upon the extent to which there is a capable and experienced merchandiser within the category team. Without a strong merchandiser, then the chances are the coverage of the category will be wrong and the financial projections will never be reached. The merchandiser is the financial custodian. Without them, the buying function may exist, but it is unlikely to ever be profitable.

These observations are relevant not only to the role of the merchandiser in terms of the delivery of a successful category management strategy, but are also pertinent to the wider contribution of the merchandiser to a retail organization. It has been the intention of the first stage of this chapter to clearly highlight the key financial responsibilities of the merchandiser. The purpose of the following section of this chapter will be to consider another aspect of merchandising, namely that of visual merchandising. In certain circumstances, it may be the case that the merchandiser, who has financial management responsibilities as delineated above, will also have an active involvement in the visual presentation of stores and of stock.

Table 4.4. Category composition for home laundry for a UK supermarket retailer

Category Name: Home Laundry	
Detergents (Automatic)	
Washing powders	12 variants by biological/non-biological/pack size/brand
Washing tablets	12 variants by biological/non-biological/pack size/brand
Washing capsules	12 variants by biological/non-biological/pack size/brand
Liquid	8 variants by biological/non-biological/pack size/brand
(Twin-tub)	
Washing powders	3 variants by biological/non-biological/pack size
(Hand-wash)	
Washing powders	2 variants by non-biological/pack size
Travel wash	2 variants by brand
Fabric conditioner	
Liquid	8 variants by brand/pack size
Tumble dryer	2 variants by brand
Spray—easy iron	2 variants by brand
Home dry cleaning	2 variants by brand

NOTES

Fabric freshners	
Spray	1 variant by brand
Steam iron liquid	2 variant by brand
Stain removal	
Bottle	16 variants by type
Soap	2 variants by brand
Cream	1 variant by brand
Impregnated textile	1 variant by brand
Water softeners	
Tablet	1 variant by brand
Powder	1 variant by brand
Fabric dyes	
Liquid	18 variants by colour/brand
Powder	16 variants by colour/brand
Starch	
Spray	4 variants by size/brand
Accessories	
Clothes Brush	2 variants by size
De-fuzzer	2 variants by brand
De-piller	1 variant by brand
Equipment	
Clothes lines	3 variants by size
Clothes pegs	3 variants by size/colour
Peg carriers	2 variants by material
Clothes hangers	10 variants by material/type/colour
Laundry bags	8 variants by material/size/use
Clothes carriers	6 variants by size/colour

However, in larger retail organizations, the responsibility for visual merchandising will be delegated to a particular team that possesses strong design and creative skills. The key considerations inherent to the process of visual merchandising are presented below.

4.18 THE DIMENSIONS OF VISUAL MERCHANDISE MANAGEMENT

Visual merchandising is concerned with the creation of a store environment which, on the one hand, consistently represents the values of the retailer and

NOTES

- Encourage interest and comparison among customers and prompt the customer to make a purchase;
- Co-ordinate the merchandise into a coherent proposition, which provides an integrated communications message.

Similarly, Varley (2001) suggests that visual merchandising has a crucial role to play in communicating and differentiating the retail offer to consumers, and maintains that the image that the visual dimensions of the store generates must be consistent with the retailer's overall positioning in the market.

4.19 THE PRINCIPLES OF STORE LAYOUT

An important dimension of visual merchandising is the design of the store layout. The layout that the retailer adopts is dependent upon a number of factors and these include:

- The sector in which the retailer operates—for example, a food retailer will adopt a different layout scheme from that of an exclusive fashion retailer;
- The architecture of the store itself.
- The market positioning of the retailer—for example, a discount retailer will adopt a layout which maximizes the use of space and ensures that as much product is available on the shop floor as possible.

Like most aspects of retailing, most companies adopt a standardized approach to store layout which is managed and controlled by a visual merchandising team at their head office. This ensures that the layout plans that are used within a retail chain are consistently applied and that a corporate store format is developed (Lea Greenwood, 1998). There are four principle store layout formats. The first is the *grid layout*. The grid layout is used primarily by food retailers, as well as retailers that operate large-scale, warehouse-style formats, such as DIY and electrical goods retailers. The grid layout involves the organization of gondola fixtures on a row-after-row basis. Merchandise rows are separated by aisles which allow for customer movement. At the end of each gondola, where customers enter from one row to the next, the selling areas are usually classified as 'hot spots', where promotional lines are displayed. These are described as 'hot spots' by virtue of the fact that a large number of customers are exposed to these areas.

Furthermore, because of the widespread adoption of 'hot spot' areas by retailers, it would appear that customers are conditioned to expect that the merchandise displayed in these areas will be of particular interest. According to Varley (2001), the grid layout maximizes the use of space available and provides a logical organization of the various product categories on offer. In many cases, the grid layout tries to expose customers to as much merchandise

NOTES

as possible. Within food retailing, this is achieved by placing high-demand products, such as bread and milk, in the centre of the store, at the middle of the aisle. This technique seeks to manipulate the movement of customers throughout the store and ensures that they are exposed to as much of the store as possible.

This approach to store layout has some negative dimensions. For example, some customers can feel frustrated by the manipulation that the grid layout provides. Furthermore, this layout can also be criticized for being inflexible and a monotonous experience for shoppers. An alternative approach to store layout is the *free-flow layout*. This layout is used within fashion stores and involves the presentation of merchandise fixtures on a more random basis. This approach enables the customers to move easily between fixtures and allows them to browse as they select merchandise. McGoldrick (2002) noted that, while this approach was more visually appealing, a free-flow layout allows for a less intensive use of space, is cost intensive and, if the merchandise is not presented in a co-ordinated manner, then the overall effect may be of confusion.

Boutique layouts are similar to the free-flow layout, but departments or sections are laid out to produce the feeling of a 'shop-in-a-shop'. This approach is often adopted by brands within department stores on the basis that it helps to promote a unified identity for the brand. For certain fashion brands sold under wholesale arrangements, the adoption of a boutique layout is a precondition to supply. This is because these fashion brands want to protect their distinctive identity and ensure that no other brand infringes on their business. While this layout approach allows for the targeting of specific groups of consumers and allows for a variety of different brand experiences for customers, it has to be acknowledged that it does not provide for an economical use of selling space.

The Swedish furniture retailer IKEA is famous for its adoption of the *controlled flow layout*. This involves the creation of a layout which tightly controls the movement of customers through the store by creating a one-way racetrack system from which the customer cannot deviate. This system seeks to expose as many customers to as much merchandise as possible. Like all layout forms which seek to rigidly control the movement of people, customers can feel frustrated by the lack of freedom of movement that this approach involves.

Whatever the store layout method that a retailer adopts, it is clear that all must ensure that a balance is struck between ensuring the optimum use of space with the need to provide flexibility and interest for customers.

NOTES

Methods of in-Store Display

Many retailers allocate considerable amounts of resource to the display and presentation of their products. Indeed, retailers, such as the upmarket department store retailer, Harrods, have developed such a reputation for innovative displays that many customers are attracted to the store in order to view their latest displays. Window displays have been found to be a crucially important marketing communications device, and studies have found that the positive impact of a window display can serve as the primary reason as to why a customer chooses to enter a store for the first time (Lochhead and Moore, 1999). Given the importance of window displays to the process of generating and communicating a brand identity, many retailers have decided to centralize the process of constructing, implementing and controlling window displays by investing the responsibility to the visual merchandising team based at head office. As a means of assuring the consistency of window display presentation, many retailers now opt to use large-scale photographs of their products, rather than the products themselves, in their store windows. An increasing number, however, now augment these photographs with actual products so as to avoid the impression of a display that is sterile, predictable and lacking in detail.

The display of merchandise takes two forms. Standard merchandise displays are used for the presentation of products en masse. Special merchandise displays are used to showcase specific products (that are perhaps either seasonal or are on promotion) within a discrete space within the store. The details of each form are presented below.

Standard Merchandise Displays

Every product that is offered for sale within a retail outlet is subject to some display principle. The method of display may be to use shelving or it may be in the form of a hanging fixture. In most cases, the organization of display would exhibit some form of internal logic, such as in terms of price, size, colour or use. The organizational logic that retailers use is usually based upon an understanding of how the customer actually selects the product. As such, an understanding of the customer's principle selection criteria is crucial. If the retailer has no clear idea of how the customer interacts with a product, then there is every possibility that the manner in which they organize their display may hinder, rather than assist, the product selection process.

For example, the fashion retailer next presents its men's formal shirt range on the basis of the product's primary feature. For example, all long-sleeved shirts are presented separately from short-sleeved shirts and double-cuff shirts arranged separately from their single-cuff range. The company also distinguishes between shirts that are made from 100 per cent cotton and

NOTES

those that are made from mixed fibres. Within each grouping, the shirts are presented in size order, from the smallest to the largest in their range. The underlying principle behind Next's approach to product display is to make product selection and evaluation as easy for its customers as possible. By simplifying the display process, next believes that it is providing an important and valued service to its customers.

Special Merchandise Displays

For merchandise that a retailer wants to highlight or promote in particular, there are a number of display options available. These are detailed below:

- **Event displays:** This is perhaps the most commonly used display format. Merchandise that has some connection to an event, holiday or festival is displayed together in order to maximize the impact of the range. Events may include Christmas, Easter, Valentine's Day or Mother's Day. Often located near to store entrances, the purpose of these displays is to showcase the range of merchandise that the retailer has to support the event. These displays are often used as a means of giving ideas and inspiration to customers.
- **Table-top displays:** These involve the presentation of merchandise on table tops with the aim of encouraging customers to interact with the product range and, in some cases, to select for purchase from the display. The Italian knitwear retailer, Benetton, has successfully pioneered this technique.
- **Hot spots:** These are displays of promotional merchandise presented in areas of high customer density. Often, the merchandise is 'blocked', one on top of the other, to give the impression of product availability and to ensure maximum promotional impact.
- **Lifestyle displays:** These sorts of displays utilize props that are associated with a particular lifestyle in order to create an association between the product range and a lifestyle image. The American fashion retailer, Ralph Lauren, uses lifestyle displays of artifacts typically associated with English country living so as to connect his Polo brand with an English country lifestyle. Indeed, the Ralph Lauren flagship store in New York takes the lifestyle display to another level in that the store has the feel and aura of an English Gentleman's Club.
- **Brand displays:** These present the goods that are included in a brand range collectively in order to showcase to customers the breadth of the range. For example, in Debenhams department stores, the company presents edited displays from their Designers at Debenhams Range at the foot of escalators and at their stores' entrances.

NOTES

Increasingly, retailers are recognizing the importance of effective visual merchandising as a means of generating differentiation within the market. Its importance is clearly evident in the observations made by the Managing Director of a major UK fashion chain: The reason for people shopping has changed in the past 10 years. It is not always just a chore but is for many an enjoyable leisure activity. For this reason, retailers need to invest in visual merchandising in order that the theatre and fun of retailing can be established. In the future, the visual dimensions will be as important as the products themselves.

4.20 THE GLOBAL RETAIL SCENARIO

Large format retail businesses dominate the retail landscape in the United States and across Europe, in terms of retail space, categories, range, brands, and volumes. Indian retail industry cannot hope to learn much by merely looking at the Western success stories in retail. Their scales of operations are very huge, the profit margins that they earn are also much higher and they operate in multiple formats like discount stores, warehouses, supermarkets, departmental stores, hyper-markets, convenience stores and specialty stores. The economy and lifestyle of the West is not in line with that of India and hence the retailing scene in India has not evolved in the same format as the West nor can we learn valuable lessons from their style of operations.

In retailing, the conventional wisdom used to be, that, the critical success factor was location. But precise location no longer matters and geo-demographics is increasingly becoming irrelevant. The leading multiple chain retailers, superstores and malls create their own centers of gravity, attracting customers by car, bus, train or even by plane to wherever they are located.

The growth of multiple chain retailers has been relentless for many years in the west and this has been accompanied by the development of retail names as brands in their own right. Discount retailer Walmart has catapulted to the top of the Fortune 500 rankings in the U.S. with a turnover of $258 billions (2003 revenues—the basis for 2004 rankings), ahead even of oil major Exxon Mobil and the mammoth manufacturing giant General Electric. A ruthless policy, of, 'Always Low prices'. Always has brought Walmart to the top. On the day after Thanksgiving in November 2002, Wal-Mart sales hit $1.43 billion in one single day.

Walmart and Nordstrom in the U.S. and Sainsbury's and Marks & Spencer in the U.K. have grown by rapid geographic expansion in their own countries. Specialists like Benetton of Italy and IKEA of Sweden and The Body Shop of the UK are international and the fast food chains like McDonald's and

Pizza Hut are everywhere. The same products are increasingly available from the same names on every continent. Retailers worldwide have immensely benefited from the sustained growth of the disposable income of their global consumers.

NOTES

4.21 GEOGRAPHIC SATURATION

The end of the nineties has signified a turning tide of retailer power. The limit to retail ambition is geographic saturation. There is already a fear that the U.S is 'over-malled', that available shopping space exceeds customer demand for products. The retailer logic that 'if we build new stores they will come', is being belied. Many retailers have started postponing their store expansion plans. The track record of some of their international store expansions is also not promising.

4.22 CATEGORY KILLER COMPETITION

The threat of saturation is accompanied by a new competition from the low cost category killers. Specialist competition is eating away at the market share and forcing down the prices and gross margins of the multiple chains. The success of the giant killers in the toys segment—Toys R Us and in home furnishings—Home Depot, in the are a case in point.

4.23 SHOPPING AT WORLD STORES

The newest retail format that is showing growth in the U.S., and is more frightening for retailers than for consumers, is the Internet. The potential for online shopping which is growing in the U.S. questions retailers' investments in more physical sites and stores and makes it imperative that they too explore the new agenda of 'E-retailing' or 'e-tailing'.

4.24 THE INDIAN RETAIL SCENE

India is the country having the most unorganized retail market. Traditionally it is a family's livelihood, with their shop in the front and house at the back, while they run the retail business. More than 99% retailers function in less than 500 square feet of shopping space. Global retail consultants KSA Technopak, have estimated that organized retailing in India is expected to

touch ₹ 35,000 crore in the year 2005–06. The Indian retail sector is estimated at around ₹ 900,000 crore, of which the organized sector accounts for a mere 2 per cent indicating a huge potential market opportunity that is lying in the waiting for the consumer-savvy organized retailer.

NOTES

Purchasing power of Indian urban consumer is growing and branded merchandise in categories like Apparels, Cosmetics, Shoes, Watches, Beverages, Food and even Jewellery, are slowly becoming lifestyle products that are widely accepted by the urban Indian consumer. Indian retailers need to advantage of this growth and aiming to grow, diversify and introduce new formats have to pay more attention to the brand building process. ***The emphasis here is on retail as a brand rather than retailers selling brands. The focus should be on branding the retail business itself.*** In their preparation to face fierce competitive pressure, Indian retailers must come to recognize the value of building their own stores as brands to reinforce their marketing positioning, to communicate quality as well as value for money. Sustainable competitive advantage will be dependent on translating core values combining products, image and reputation into a coherent retail brand strategy.

There is no doubt that the Indian retail scene is booming. A number of large corporate houses — Tata's, Raheja's, Piramals's, Goenka's — have already made their foray into this arena, with beauty and health stores, supermarkets, self-service music stores, newage book stores, every-day-low-price stores, computers and peripherals stores, office equipment stores and home/building construction stores. Every retail category has been attacked, by the organized players today. The Indian retail scene has witnessed too many players in too short a time, crowding several categories without looking at their core competencies, or having a well thought out branding strategy. To illustrate, the Indian lifestyle/fashion retail scene is already exhibiting the following characteristics, which do not augur well for its future:

Lack of Store Differentiation: Leading retail stores like Shoppers Stop, Lifestyle, Ebony, Globus, and Piramyd, offer common brands, similar ambience, and a commitment to improved service. Where is the scope for differentiation and brand building? Can these retailers hope that location and ambience alone will do the trick?

Merchandising Muddle: Mumbai's original retailers of Mumbai —, Amarsons, Akbarallys, Benzer, Premsons — have experienced no decrease in traffic in their stores, even after Piramyd and Westside opened shop. These retailers exploit what they know best — what the customer wants with regard to product, selection and price — and ensure their customers do not go back disappointed. Consumer insights built over their years of experience in business is helping them to hold the fort against the onslaught of the new players on the horizon.

The organized new generation Indian retailers (Shoppers Stop and Westside) have recruited senior retail persons from abroad, who have the expertise in setting up systems and procedures, but they are going to take a long while to tune into the psyche of the Indian consumer.

With the permutations and combinations of seasons, fashions and regional preferences, merchandising is at the best of times a complex task. India's cultural diversity poses additional challenges to the merchandisers requiring them to be aware of local tastes and to be able to compete with the local retailer in terms of market knowledge and speed of response. While technology and systems are no doubt enablers, there can be little substitute for experience and insight.

Lack of Labels/Suppliers: Organized Indian retailing has to face the situation of lack of professional suppliers who are accustomed to deadlines, systematic in their production and consistent with their quality. Often, the local suppliers do not have financial strength or production infrastructure or discipline. Indian merchandisers are forced to compromise due to a true lack of choice — which leads to huge unsold stocks and reduced profitability to the retailers.

Discounting: Given widespread availability of the same brands, large retailers have to cope with the phenomenon of discounts offered by the smaller retailers. Large stores are able wrangle larger margins from most suppliers, but these margins are retained to meet the higher operating cost. Small retailers are tempted to pass on the lower overhead in the form of a discount to the customer to get them to their stores. In a middle classdominated, price-sensitive market like India, price manipulation is a strong weapon in the arsenal of the small independent retailer. The large retailers themselves further dilute the strength of the retail market. With promotions becoming the order of the day, they too have entered into price wars against each other. 'Up to 50% off' sales and 'Two for one' price offers have now become commonplace even at the top retail outlets across our country. Deep price cuts may not be the answer to maintain their relevance against the small retailers nor does it auger well for the brand building of the store.

Limited Margins and High Real Estate Costs: It is well accepted that Indian retailers work on low margins compared to international chains. The retail margins in India are a meager 30 to 35 per cent for fashion brands (as, say, compared to 50 to 100 per cent across Europe). With overheads and allowance for dead stock, the Indian retailer is not left with much scope for error. Cost of prime land for the retail store is prohibitive. Land prices in prime localities across the metros have themselves become a major deterrent to sustaining a profitable retailing model for organized players. A number of the new chains have therefore preferred to spread in smaller metros, hoping to offset lower revenue potential with lower real estate costs.

NOTES

'Time Abundant' Consumers?: In recent years, it would seem that the consumer has thrown the adage 'time is money' to the winds. The customer is willing to spend more time if he/she is getting a better deal. Scarcity of time seems to be the prerogative only of a few consumers. The crowds inside Sarvana Stores or Jayachandran textiles in Pondy Bazaar in Chennai, drive home the point that consumers are prepared to travel to reach stores that promise best prices.

The Indian model of organized retailing is still in a stage of evolution, and retailers need to understand the value of retail as a brand rather than remaining as retailers selling brands. However, the characteristics of the branding process, which are of interest to the retailers, are still the characteristics of the traditional product brands – they are simply extended to the intangible part of the business. Thus, the characteristics of a branded product, are simply applied in a different space.

What are the fundamental characteristics of a brand? While a myriad of characteristics have been catalogued by several researchers on this subject, five characteristics deserve mention:

1. *Recognizability*: A true brand is instantly recognized and identified. The brand name passes into every day use (Nike's 'Just do it') or becomes satirized ('Don't be such a Duracell') or appropriated ('Make a Xerox of this document'). Indian retailers like Shoppers Stop, the RPG Group's Food World and Music World have already earned national recognition. Subiksha in Tamilnadu and 'Margin Free' supermarkets in Kerala are household names in the two states.
2. Me*aning, story, value*: This is the second characteristic of a brand. The brand must have a value proposition. It must stand for something and one of the most effective ways is to have a story to transmit those values. Examples abound of effective leaderships that have helped to build corporate brand values in other sectors, but few retailers have succeeded in building a story to carry brand meaning. When they do so, their power will increase.
3. *Legitimacy*: The meaning of the brand should be obviously appropriated by the target customer group. Legitimacy rests on authority, earned by the brand and granted by the customers. Lessons can be learned from social organizations like *Greenpeace, Medicins sans frontiers, CRY and Helpage India.* In this case, legitimacy rests on moral authority. In retail businesses it may rest on an emotional authority (a unique shopping experience, a store filled with warmth and friendliness.)
4. *Consistency, alignment*: A brand story should contain no internal contradictions and should be appear to be consistent over time. It should be applicable across the business and attempt at total brand integration.

NOTES

5. *Proximity*: The brand building process should culminate with assuring the brand's proximity to the consumer. The brand's definition gets expanded by opening stores in a number of locations to make it convenient to the consumer.

4.25 RETAIL BRAND BUILDING

Product brands make life easier. They make it possible to recognize products, which simplifies the decision-making process. Furthermore, product brands make the consumer a part of a group, they create a sense of belonging. But retail brands do even more than that. These brands are visible platforms for kindred spirits: the physical shop is a container for the entire retail formula and therefore constitutes a large part of the retail brand. The tangible nature of retail makes the familiar slogan 'experiencing the brand' most logical of all, in a physical store.

Retail brands have gained in popularity in the past few years. Indeed, they have a number of advantages above product brands. In the first place, they are closer to the consumer. The physical store space offers the possibility of literally and figuratively communicating with consumers at the moment of purchase (one-to-one marketing). Retailers can show who they are and what they stand for through the store formula. Moreover, in principle, retailers are neutral, because the choice of product brand (or store brand, if present) is left to the consumers. Retailers help consumers because they make a shrewd pre-selection and present their product assortment in a specific manner. Once a consumer knows and trusts a retailer and has good experiences and memories about a store, the foundation has been laid for a long-lasting relationship that will ultimately lead to customer loyalty. ***Retail branding creates a brand preference, which goes beyond the product or service in itself.***

4.26 RETAIL BRANDING VERSUS PRODUCT BRANDING

A great difference between product branding and retail branding is that in many cases products have an anonymous or even fictitious presenter, whereas in retail, consumers come in direct contact with the company and/or product. A Cadbury's Dairy Milk chocolate bar, for example, is a product made according to a set recipe in a factory that is not open to the public. In addition, the people who work there never come into contact with the consumers because the retail channel lies in between. And those who do sell the 'CDM' to the end-consumer (the retailers) do not have very much to do

NOTES

with it by virtue of their function. Therefore it is possible to conceive a brand identity for the product, establish it for a specific target group and then fix it in the minds of consumers. Compare the identities of 'Five Star' 'Perk', 'Gems' and 'Temptations': all very different, yet they come from the same manufacturer.

Contrast this with a store like Food World, for example. Because of its direct contact with the end-user, it must effectively live up to its brand reputation in every aspect, every day. It is impossible for retailers to escape the need to continually sustain the store brand. In a store, the entire retail organization is revealed and the true nature of a company can be experienced. A retail store, as said earlier, is the container that holds the entire formula. All the elements of the formula (including the elements of the marketing mix) come together in-store. The formula should be deliberately shaped from the standpoint of identity (the 'brand' of the retail organization) with mutual coordination of the elements being important.

What might it then mean, when branding is applied to retailing? The issue is not of retailers selling brands but branding the retail business itself, like the grocery supermarket chain or the fashion store. A hypermarket or department store, may offer several well-known brands, but in today's competitive world cannot afford to rest on its strategic product assortment and pricing initiatives to bring in the customers. The retailer must attempt to brand himself differently, especially when today's product brands are being launched through their product brand's own shops. (Examples in the shoe segment—Nike, Adidas and Reebok. Jeans segment—Lee and Wrangler, Perfumes—Hugo Boss.)

A retail organization, like any other corporate company, will have to ensure that its own brand includes the characteristics of product brands detailed above. Retailers need to work on three dimensions to achieve this:

1. **Brand Value:** The retail brand has to embody and transmit clear values to the customer. (Like 'value for money', 'Luxury shopping redefined'). Some companies have attempted to define this in their mission statements but they are often too vague and not actionable. For example the U.K. Virgin brand has the value of challenging conventions and the U.S. retailer Nordstrom has a built a value of customer service. While many Indian product brands have successfully weaved values around their brands (Hamam on 'trust', Godrej on 'quality' and TVS on 'service') retailers are yet to develop a consistent value across their businesses.
2. **Brand Strategy:** It is imperative that retailers have a systematic strategy on issues like whether to develop the retail brand or corporate brand and decisions on one product/one brand that they may be selling in their shop. Retailers can also decide to launch high quality retailer brands ('own labels') backed by promotional campaigns, reinforcing clear personalities.

Pricing policies, today position retailer brands as good value lines or premium lines (Nilgiris department stores prices its grocery lines above manufacturer brand prices). The view that retailer brands offer a cheaper alternative to manufacturer brand is no longer valid. There is even scope for retailers to develop alternative types of 'own labels' targeted at different consumer groups in their outlets. An essential ingredient for success, in such cases, must be consumer-relevant added values—not just lower prices. It is only a minority of consumers, today, who are prepared to trade off added values for lower prices. Experienced consumers are no longer primarily motivated by low prices There is scope to attempt a retail segmentation strategy. For example, DCM Benetton India redesigned its stores as per its international format and also repositioned the brand from a casual wear brand to a wardrobe option. The company is now attempting to target a niche audience through its concept stores. It launched a 'Baby-on-Board' store, which targets mothers-to-be and kids, an 'Accessories' stores that sells luggage, bags, sunglasses and vanity cases and an 'Adults Only' store that showcases Benetton's apparel collection for men and women.

3. **Brand Structure:** Operational levels of the retail business have to be held together to integrate the whole brand proposal. At this level, marketing, human resources, distribution, logistics, administration and sales have to work towards a common brand value that has to be communicated to the consumer. The retail brand's messages must be weaved into the every day experiences that the consumer has with the retail brand. Brand building constitutes a way in which the main value of the retail store shifts to what has been traditionally called an intangible. Indian Retailing is coming of age and needs to have a clear brand proposition to offer the discerning Indian consumer. There is no doubt that the retail business is gravitating from high street towards destination shopping (mall development) with an estimated 10million square feet of mall space expected to hit the metros and mini-metros across the country this year. However, we need not assume that retailing at shopping-malls, is going to be fundamentally different from shopping at the traditional shopping areas, except that a mall has a more modern structure and in most cases brings multiple brand outlets under a single roof. The local retailers moving into malls, however, have to face the challenge of building brand recognition and loyalty right from scratch.

Most mall developers have on offer, the same combination of shopping (International/national brands), Entertainment (Theatre Multiplex) and food (McDonald's/Pizza Hut/Café Coffee Day) in their malls. It is therefore not surprising to note, that many mall visitors come out having no shopping bags, since they have been enticed to visit only for watching a movie and /

NOTES

or having a burger or a pizza or even a cup of coffee. Malls are also fast becoming a place that youth can 'hang out', but if the crowds do troop in, but the cash registers are not ringing, it can harm the serious business of retailing and hurt this nascent industry on the growth path.

The critical lesson for mall developers is, to invest some quality effort in understanding the shopping-needs of customers in their targeted areas, and then build a carefully planned portfolio of retail options that can meet the needs of these targeted customers. Mall developers also have to create distinctive (brand) identities for their specific malls. It is equally important for the would-be retailer tenants, to realize that merely moving into a mall does not build their brand or guarantee business for them. They have to work as hard to draw consumers to their own stores once the latter have entered the mall, and then have the right value proposition for them, to get them converted into customers, and then to become repeat customers. Building a differentiating brand identity would work for both the mall owner and the mall retailer.

We are also seeing organized Indian retailing in several businesses that speaks volumes of the staggering potential for the expansion of this sunrise sector in our country. But here again, the early initiatives in the sectors illustrated below seem to rely more on novelty and excitement of newer ambiences rather than truly investing in brand building.

Gourmet Coffee Retailing: The organized coffee retail business is estimated at ₹ 250 crores and is showing a growth rate of 40%. Apart from the Quickys, Café Coffee Day and Baristas chains, the Tatas have aunched their Bean Coffee Junction chain in Chennai. Coffee World an international gourmet coffee chain is set to launch its outlet in Bangalore this year. Reliance is offering gourmet coffee at some of its Reliance WebWorld outlets under the brand name 'Java Green'. There are not more than 350 outlets in the organised sector today but retail consultancy KSA Technopak opines that India's potential for coffee retail outlets could be around two thousand. However the coffee retailers are already cloning each others' strategies—by offering that "total experience" — right coffee, food and ambience with Wi-fis and jukeboxes — to pull customers, across all their outlets and consumers are finding it hard to identify themselves with any one outlet.

Lifestyle Retailing: Chennai has witnessed a manifold increase in the total retail space devoted to non-grocery or lifestyle retail. The four major lifestyle retailers — LifeStyle, Westside, Shoppers' Stop, and Globus — alone account for a little over 200,000 square feet of retail space. Add to that the retail space of the traditional apparel retailers such as Nalli's and Kumarans and the recent entrants such as Pothy's, R.M.K.V and Chennai Silks and that of the scores of multi-brand outlets, the figure shoots up. The reasonable real estate prices, overall lower cost of operations and accessibility to consumers

vis-à-vis other metros, have spurned the growth of organized retail at Chennai. But, on the brand building front, the story is no different. A retail analyst has already observed that Chennai is over-retailed in the lifestyle segment, with little differentiation among the players.

Petrol Pump Retailing: As consumers, we have been noticing how India's state-owned petroleum companies are undertaking a massive image improvement, makeover and differentiator exercise. From signage to logos to canopies, clean floors, channel music, lighting, convenience stores, uniformed attendants, internet browsing and promotion schemes, the public sector pumps are working hard at delivering a new experience to the Indian motoring consumer. All this, of course, is being done as part of a bigger game plan to cope with the coming private sector competition from Reliance, Essar and Shell. Let's wait and watch whether public sector hindsight into branding pays off for them in the face of private competition in the next few years.

4.27 INDIAN RETAIL BRAND BUILDING—THE ROAD MAP AHEAD

There is no doubt that the Indian retail shopping experience has been enhanced by giant superstores and shopping malls across our country. They should however learn quickly to build the retail brand directly and not look to factors like prime location, value pricing or product assortment to build their businesses. Indian retailers, to build a strong retail brand presence, can use the following strategies.

Relationship Management to Enhance in-Store Shopping Experience: Competition will force retailers to think about their customers as individuals, analyze their shares of customers and calculate their customer lifetime values. Retailers need to build data bases using in-store data collection and launch frequent shopper rewards, carry on an interactive communication with them, make special offers, drive traffic and add value outside the in-store relationship.

Retail brands get built by developing personal relationships with consumers rather than only through product and pricing. For example, staff should be trained to recognize their V.I.P customers. 'Soft' rewards for V.I.P customers include priority service, free gift wrapping, enhanced guarantees and sales pre-notifications. 'Hard' benefits include privileged rewards and extra value offers as well as straight discounts.

The quality of management of the customer is becoming an increasingly important source towards building the retail brand. Education and training of staff needs to be done to enhance customer service. Local store management

vis-à-vis other metros, have spurned the growth of organized retail at Chennai. But, on the brand building front, the story is no different. A retail analyst has already observed that Chennai is over-retailed in the lifestyle segment, with little differentiation among the players.

Petrol Pump Retailing: As consumers, we have been noticing how India's state-owned petroleum companies are undertaking a massive image improvement, makeover and differentiator exercise. From signage to logos to canopies, clean floors, channel music, lighting, convenience stores, uniformed attendants, internet browsing and promotion schemes, the public sector pumps are working hard at delivering a new experience to the Indian motoring consumer. All this, of course, is being done as part of a bigger game plan to cope with the coming private sector competition from Reliance, Essar and Shell. Let's wait and watch whether public sector hindsight into branding pays off for them in the face of private competition in the next few years.

4.27 INDIAN RETAIL BRAND BUILDING—THE ROAD MAP AHEAD

There is no doubt that the Indian retail shopping experience has been enhanced by giant superstores and shopping malls across our country. They should however learn quickly to build the retail brand directly and not look to factors like prime location, value pricing or product assortment to build their businesses. Indian retailers, to build a strong retail brand presence, can use the following strategies.

Relationship Management to Enhance in-Store Shopping Experience: Competition will force retailers to think about their customers as individuals, analyze their shares of customers and calculate their customer lifetime values. Retailers need to build data bases using in-store data collection and launch frequent shopper rewards, carry on an interactive communication with them, make special offers, drive traffic and add value outside the in-store relationship.

Retail brands get built by developing personal relationships with consumers rather than only through product and pricing. For example, staff should be trained to recognize their V.I.P customers. 'Soft' rewards for V.I.P customers include priority service, free gift wrapping, enhanced guarantees and sales pre-notifications. 'Hard' benefits include privileged rewards and extra value offers as well as straight discounts.

The quality of management of the customer is becoming an increasingly important source towards building the retail brand. Education and training of staff needs to be done to enhance customer service. Local store management

NOTES

can be empowered to maximize the value of each customer visit. Analysis of customer behavior can guide store merchandising to match the profile of their customers and even the needs of the shoppers at different times of the day.

External Communication to Add Value Outside the Store: Retailers use advertising to build their brands and promotions to drive store traffic. Retailers have, still not felt the concept of individual customer communication outside the stores as a necessity. It is necessary that they seek to add a new form of dialogue with their customers. Retail chain Subiksha, for examples, mails a broadsheet to its customers giving them details of the promotional offers available and price comparisons across brands that helps its customers to take more informed decisions.

Motivating the Staff to Volunteer Value: The quality of in-store service is a key factor in differentiating the retailer and winning a higher share of customer spend. In one survey, shoppers were asked, would they ask for the same salesperson on their next purchase visit; the 'yes' respondents were found to more likely give the store a 8–10 rating. On the other hand, shoppers unhappy with the salesperson gave the store a very low performance on overall service and performance. Staff must be trained and motivated to recognize their best customers and to offer them superior service.

Successful retailing has always been said to be, about getting the nitty-gritty right of merchandising, forecasting, the supply chain, training and recruitment of high quality personnel and category management. Building retail brands that offer value will, in future, overshadow all these areas, and emerge as the dominant reason for the success of the organized Indian retailer. Indian retailers should also understand that the retail experience has become a popular leisure activity and they are vulnerable to any new competition for customers' entertainment. Indian retailers must build their brands with images that seek to entertain and involve their customers. It is the quality and value of the retail brands that they have sought to establish that will determine the loyalty of the retail shopper in future.

4.28 SUMMARY

- The pricing of some products may be constrained by existing laws or may be influenced by government action.
- Retailers sometimes price particular fast moving products at a lower price to attract customers to the store.
- The nature, role and coverage of retail merchandising are dimensions that are often a source of confusion for practitioners and researchers.

NOTES

- A variety of proximate approaches have been identified in the literature with respect to the process of adopting a category management strategy.
- Retail branding creates a brand preference, which goes beyond the product or service in itself.

4.29 REVIEW QUESTIONS

1. How important is the role of pricing in retail marketing mix?
2. Examine the various pricing objectives in the retail sector.
3. What is the difference between margins and mark down? Explain it with an example and also when and how is it implemented?
4. Discuss any three pricing strategy used in retailing and how commonly is it adopted by retailers.
5. What actions might a merchandiser recommend in order that a retailer might better reach its gross margin targets?
6. Describe what is meant by 'open to buy'. Explain why retailers adopt this approach.
7. How does the life cycle of a product affect the amount of space that a product is allocated in store?
8. Outline the role that merchandisers may have in the process of category management development.
9. Identify how visual merchandising may assist retailers in the achievement of their key business objectives.
10. Detail the various options that retailers have when it comes to the selection of a layout for the store. Identify the factors that may influence their layout decision.
11. Describe the options that retailers have available to them for the display and promotion of their merchandise.
12. Discuss the internationalization of the retailing.

4.30 FURTHER READINGS

1. *Fundamentals of Indian Transfer Pricing*, Radhika Suri, Taxmann, 2008.
2. *Pricing Management*: Ashish Pandey, Global Vision Pub. 2007.
3. *Recent Trends and Prospects of Transfer Pricing*, Arun Kumar, Research India Press, 2011.