LOVELY PROFESSIONAL UNIVERSITY

# Retail Management

Edited By

Ashwani Panesar

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# SYLLABUS

## Retail Management

***Objectives:*** The objective of the course is;

- to stimulate students interest in retailing by capturing the exciting, challenging, and rewarding opportunities facing both retailers and firms.
- to provide an understanding on evolving role of internet in retailing.
- to enable students understand the use of technology and analytical methods for decision making in the dynamic retail sector.

| S. No. | Description |
|---|---|
| 1. | **Introduction to Retail:** Meaning, Scope, Functions, Marketing-Retail Equation, Rise of the Retailer, Global Retail Market, Retail as career. |
| 2. | **Retail In India:** Organised Retail, Evolution of Retail in India, Drivers of Retail change in India, Size of Retail in India, Challenges to Retail Development in India. |
| 3. | **Theories of Retail Development & Business Models in Retail:** Evolution of Retail Formats, Theories of Retail Development, Concept of Life Cycle in Retail, Business Models in Retail, Traditional Business Models in Indian Retail. |
| 4. | **Understanding the Retail Consumer:** Need for studying Consumer Behaviour, Factors Influencing the Retail Shopper, Customer Decision-Making Process. |
| 5. | **Retail Strategy:** Concept of Business world, Strategy˘The Retail Perspective, International Expansion, The Retail Value Chain. |
| 6. | **Store Site Selection:** Types of Retail Locations, Steps involved in choosing a Retail Location, Methods of Evaluating a Trading Area. |
| 7. | **Merchandise Management:** Basics of Retail Merchandising, Process of Merchandise Planning, Methods of Merchandise Procurement, Retail Pricing and Evaluating Merchandise Performance. |
| 8. | Human Resource Management in Retail, Store operations and Profitability, Store Design and Visual Merchandising. |
| 9. | Retail Marketing and Branding, Retail Management Information Systems. |
| 10. | Private Labels, Retail Franchising, Supply Chain Management. |

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# Unit 1: Introduction to Retail

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## Objectives

After studying this unit, you should be able to:

- State the meaning and scope of retailing
- Discuss the functions of retailing/retailer
- Realise the Marketing-Retail equation
- Trace the rise of the retailer
- Get an overview of the global retail market
- Access retail as a career

## Introduction

Retailing comes at the end of the marketing distributive channel. The word 'retail has been derived from the French word "retaillier" and means 'to cut a piece' or 'to break bulk'. It covers all the activities involved in the sale of product and services. Retailing is a high-intensity competition industry and second largest globally. The reason for its popularity lies in its ability to provide easier access to a variety of products, freedom of choice, and many services to consumers. The size of an average retail store varies across countries depending largely on the level of a particular country's economic development. The largest retail store in the world is Wal-Mart of USA.

Retailing is the world's largest private sector contributing to 8% of the GDP and it employs one sixth of the labor force. The estimated retail trade is expected to be 7 trillion US $. Many countries have developed only due to retailing and presently we see there is a vast change in the retail industry. As far as India is concerned it contributes to 14% of our GDP and it is the second largest sector next to agriculture which provides employment to more number of persons.

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Now according to a survey, India is classified in to the fifth most attractive retail destination and second among the countries in Asia. Worldwide it is ranked as fifth most attractive retail destination.

## 1.1 Meaning and Scope of Retail

Retailing is the business activity of selling goods and services to the final consumer.

Retailing can be defined as the business products and services to consumers for their own use. According to Kotler, "*Retailing includes all the activities involved in selling goods or services to the final consumers for personal, non business use*".

Retailing is the activity of selling goods and services to last level consumers for their use. It is concerned with getting goods in their finished state into the hands of customers who are prepared to pay for the pleasure of eating, wearing or experiencing particular product items. Retailing is all about the distribution of goods and services because retailers play a key role in the route that products take after originating from a manufacturer, grower or service-provider to reach the person who consumes. Retailing is also one of the key elements of a marketing strategy facilitating the targeting process, making sure that a product reaches particular groups of consumers. It is important in a marketing strategy to match the arena in which a product is purchased to the benefits and characteristics of the product itself and its price.

Retailers provide a collection of service benefits to their customers such as being located in convenient places, editing product ranges according to shopping tasks, and selling goods in quantities that match personal consumption levels. Ensuring that this process runs smoothly presents a host of managerial challenges. Retailing is therefore a deceptively simple management process - yet fascinatingly complex in its detail.

*Caution* The term retailing applies not only to the selling of tangible products like loaves of bread or pairs of shoes, but also to the selling of service products.

Companies who provide meals out, haircuts and aromatherapy sessions are all essentially retailers, as they sell to the final consumer, and yet customers do not take goods away from these retailers in a carrier bag. The consumption of the service product coincides with the retailing activity itself.

From a traditional marketing viewpoint, the retailer is one of a number possible organization through which goods produced by manufacture flow on their way to their consumer destiny. These organizations perform various roles by being a member of a distribution channel.

*Example:* Chocolate producer like Cadbury's will use a number of distribution channels for its confectionery, which involve members such as agents, wholesalers, supermarkets, convenience stores, petrol stations, vending machine operators and so on.

Channel members, or marketing intermediaries as they are sometimes referred to, take on activities that a manufacturer does not have the resources to perform, such as displaying the product alongside related or alternative items in a location that is convenient for consumer to access for shopping.

Retailing consists of the sale of goods or merchandise from a fixed location, such as a department store or kiosk, or by post, in small or individual lots for direct consumption by the purchaser.

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Retailing may include subordinated services, such as delivery. Purchasers may be individuals or businesses. In commerce, a retailer buys goods or products in large quantities from manufacturers or importers, either directly or through a wholesaler, and then sells smaller quantities to the end-user. Retail establishments are often called shops or stores. Retailers are at the end of the supply chain. Manufacturing marketers see the process of retailing as a necessary part of their overall distribution strategy. The term "retailer" is also applied where a service provider services the needs of a large number of individuals, such as a public utility like electric power.

*Caselet*

### Case: Industry Status for Retail Sector?

Barely recovering from the slump in the economy, organised retailers in the country demand that the sector should be given industry status, besides easing foreign investment norms in the forthcoming Budget. "Industry status has been a long standing demand of the retail sector. Besides we also want a relaxation in the foreign direct investment (FDI) norms," Retailers Association of India chief executive officer Kumar Rajagopalan said. Sharing similar views, Koutons Retail India chairman D P S Kohli said: "Industry status has been a recurring demand of the retail sector for many years since only then will the retailers be able to fully enjoy the benefits of organised financing, insurance and fiscal incentives."

According to industry figures, only around five per cent of the estimated over USD 450 billion Indian retail sector is currently organised. Calling for easing of FDI norms, Rajagopalan said, "No industry in India has grown without FDI participation and for retail to emerge as a big player, more FDI should be allowed." Besides, he said even if FDI norms are not relaxed in the Budget, the government must give a clarification on FII and foreign PE funding route as there is a lot of ambiguity.

Kohli said clarity on the issue will help Indian retailers raise funds from abroad as the global liquidity condition is showing improvement. At present, the government allows 51 per cent FDI in single brand retailing and prohibits any foreign investments in the multi-brand segment.

***Source:*** indianrealitynews.com

### Self Assessment

State whether the following statements are true or false:

1. Retailing is the last link in the supply chain that delivers goods to the final consumers.
2. Retailing is concerned with selling of goods only to the final consumers.
3. Retailing is a part of manufacturer's overall distribution strategy.

## 1.2 Functions of Retailing

Retailers are crucial players in the emerging market scenario. Large brands are running first to get into the desired retail formats to cater to the growing middle class of India. Retailers perform various functions like providing assortments, sorting, breaking the bulk, rendering services, bearing risk, serve as a channel of communication, transportation, advertising and holding

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inventory. They significantly contribute towards increasing the product value and satisfying the consumers. Following are the functions of a retailer/retailing:

- ***Providing assortments:*** Offering an assortment enables customers to choose from a wide selection of brands, designs, sizes, colors, and prices in one location. Manufacturers specialize in producing specific types of products.

  *Example:* Kellogg's makes breakfast cereals, Knorr makes soups.

  If each manufacturer had its own stores that only sold its own products, consumers would have to go to many different stores to buy groceries to prepare a single meal. Retailers offer assortment of multiple products and brands for consumer convenience.

- ***Sorting:*** Manufacturers make one single line or multiple product lines and will always prefer to sell their entire output to few buyers to reduce their costs. Final consumers will prefer to choose from a large variety of goods and services and then usually buy in smaller quantities. Retailers have to strike a balance between demands of both the sides, by collecting a combination of goods from different producers, buying them in large quantities and selling them to individual consumers in smaller quantities. The above process is called sorting and under this process, the retailer undertakes activities and performs functions that add value to the products and services while selling them to consumers.

*Example:* A shopping supermarket of Pantaloon Retail in the name of 'Big Bazaar' sells more than 20,000 assortments from 900 companies. Customers can choose from such a basket in just one location. There are specialized retailers like Nilgiris or Barista, which offers specialized assortments of a single product line.

- ***Breaking Bulk:*** Retailers offer the products in smaller quantities tailored to individual consumers and household consumption patterns. This reduces transportation costs, warehouse costs and inventory costs. This is called breaking bulk.

- ***Rendering Services:*** Retailers render services that make it easier for customers to buy and use products. They provide credit facilities to the customers. They display products, which attract the customers. Retailers keep ready information on hand to answer queries of the customers. They provide services by which the ownership can be transferred from manufacturer to the end consumers with convenience. They also provide product guarantee from owner's side, after sales service and also deal with consumer complaints. Retailers also offer credit to consumers and develop hire purchase facilities to enable them to buy a product immediately and pay the price at their ease. Retailers also fill orders, promptly process, deliver and install the product at customer point. Retail sales people answer the customer complaints and demonstrate the product for the customer to evaluate before making a choice. They also help in completing a transaction and realizing the sale.

- ***Risk Bearing:*** Retailers bear a different kind of risk to the manufacturers and wholesalers. Even the customers can come back to the retail point and return the product. In that case, the risk of product ownership many times rests with the retailers. Many companies have buy back schemes and return schemes whereby the retailers can always return the unsold items to the manufacturer.

- ***Holding Inventory:*** A major function of retailers is to keep inventory so that products will be available for consumers. Thus, consumers can keep a much smaller inventory of products at home because they can easily access more from the nearby retailers. Retailer's inventory allows customers instant availability of the products and services.

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- ***Channel of Communication:*** Retailers are the bridge between the manufacturer or his representative and the end customers. They serve as a two-way channel of communication. The manufacturer collects customer choice and preference data and provides information about existing and new products through the retailers. The point of purchase displays provide serve as advertisements that provide information about new products and many times retailers inform the consumers about likely date of availability of a product or entry of variants into the market. The shoppers get a chance to learn about products and services from the stores and even acquire trial habits by seeing others buying a product or service in the store. The manufacturer too collects customer data, data on gaps in demand and supply cycles and customer satisfaction from retail points.
- ***Transportation:*** Retailers also help in transport and advertising function. The larger assortments are transported from wholesaler's point to retailers point by retailer's own arrangements and many times, the retailer delivers the goods at final consumer's point. So, retailers provide assistance in storage, transportation and pre-payment merchandise.

The percentage that a retailer gets from the sale price depends on the number of functions that the retailer does for the manufacturer.

*Task* Visit your nearby retailers and find out what all activities do they perform to enrich customer service.

### Self Assessment

Fill in the blanks:

4. Retail offers an ..... that enables customers to choose from a wide selection of brands, designs, sizes, colors, and prices in one location.
5. Under ..... process, the retailer undertakes activities and performs functions that add value to the products and services while selling them to consumers.
6. Retailer's ..... allows customers instant availability of the products and services.

## 1.3 Marketing Retail Equation

Marketing has been defined as "the process by which individuals and groups obtain what they want and need through creating, offering and freely exchanging products and services of value with others".

Meaning of marketing is to identify the customer needs and satisfy those needs as desired by the customer. But every player who is existing in the market is doing the same. Therefore the companies started wondering what next? They realized that they need to focus on long term profitable customers. Only the way is to best of the best action plan and relationship building. For that purpose every marketer is quoting their own business equations.

### 1.3.1 Return Exchange becomes the Retail Equation

The Return Exchange is evolving to become The Retail Equation. This change is all about growth and opportunity. While The Return Exchange has been focused on return authorizations, today we are seeing strong demand for broader return optimization solutions that extend well beyond fraud. Therefore, our new name is an evolution, not a dramatic change, reflecting the fact that

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our business growth will be driven by our ability to predict shopper behavior and optimize all retail transactions

### 1.3.2 What is Retail Equation?

The Retail Equation is a software company contracted by retailers to gather their return information, store it securely, and analyze the data to develop and follow return policies for those retailers. The Retail Equation works as an application service provider and call center for each retailer.

### 1.3.3 Dimensions of Retail Equation

We can look at in two perspectives:

1. Manufacturer point of view
2. Retailer point of view

#### Manufacturer Point of View

In our world, many products are manufactured in one country and sold to a market in another.

*Example:* **Washington apple, China rice, China toys**

Due to the globalization everybody come and launch their products in India, thereby by most of the Indian business were lost certain percentage of market share. Most producers no longer sell their product to the final consumer. The marketing channel design is largely based on the level of service desired by the target consumer. Here, the retailer provides valuable inputs to the manufacturers on the products and the consumers.

Manufacturers or suppliers who offer products for immediate consumption are known as direct manufacturers or suppliers.

*Example:* Eureka Forbes, whose door to door sales men offer its products to customers, is an example of a company which offers its products directly to the consumers.

Most of the market occupied with unorganized products. The hyper markets became the good platforms to the unregistered brands. Just to spend on manufacturing cost and push it out in the market through retailer.

#### Retailer's Point-of-view

The other perspective of looking at the marketing-retail relationship is from that of the retail industry itself. Every retailer needs marketing.

*Example:* The marketing efforts of multibrand retailer like Food World and Shopper's Stop are different from those of an own brand retailer like Westside.

However the basic principles of marketing are no different for a retailer than for any other supply organization.

Modern marketing theory may have stemmed from producers of fast moving consumer goods; more recent developments such as relationship marketing and interactive marketing have

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evolved from the needs of service providers. These new marketing activities gained the immense popularity which can act as a bridge between customer and manufacturer.

Retailing needs to cross the following hurdles:

- The first challenge facing the organized retail sector is the competition from unorganized retail sector.
- Customer service expectations are high at a time when more retailers offer self-service and automated systems. At the same time, many retailers remain unsure what to do with the web; they are still grappling with the emphasis to place on image enhancement, customer information and feedback, and sales transactions.
- In retail sector, Automatic approval is not allowed for foreign investment.
- Lack of trained work force
- Intrinsic complexity of retailing – rapid price changes, threat of product obsolescence and low margins.
- Cost of business operations is very high in India.

### Self Assessment

Fill in the blanks:

7. ..... refers to identifying the customer needs and satisfying those needs as desired by the customer.
8. The marketing channel design is largely based on the level of ..... desired by the target consumer.
9. Manufacturers who offer products for immediate consumption are known as ..... manufacturers.

## 1.4 Rise of the Retailer

The retail sector is changing at ever increasing rate and this is leading to greater competitor activity. Such activity leads to a need to improve the way companies approach retail marketing. Retailing is not only an integral part of our economic structure but also shapes and is shaped by, our way of life. While the trading of goods has always been a part of traditional societies, in recent times the buying and selling of products has became a much more formalized and brand-dominated activity. Even as relatively recently as the 1960's retailing was predominately seen as having a smaller and significantly less important role than other industries such as manufacturing.

Retailing is a major part of U.S. and world commerce. Retail sales and employment are vital economic contributors, and retail trends often mirror trends in a nation's overall economy.

*Did u know?* According to the Department of commerce, annual U.S. retail store sales exceed $3.5 trillion – representing 31 percent of the total economy. Telephone and mail-order sales by non-store retailers, vending machines, direct selling and the web generate hundreds of billions of dollars in additional yearly revenue. And personal consumption expenditures on financial, medical, legal, educational, and other services account for another several hundred billion dollars in annual retail revenues.

Durable goods stores – including the auto group; furniture and appliance group; and lumber, building materials, and hardware group – make up 42 percent of U.S retail store sales. Non-

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durable goods and services stores – including the general merchandise group, apparel group, gasoline service stations, eating and drinking places, food group, drug and proprietary stores and liquor stores – together account for 58 percent of U.S retail store sales.

### Large and Increasing Contribution of GDP

The increasing importance of the retail sector is reflected in its contribution to GDP. In the India the retail sector accounted for a substantial 8-10% percent of GDP in 2007 (source: business.mapsofindia.com). This implies that a very significant proportion of the economy is linked to retailing hence public policy tends to recognize its importance as a driving force and aims to promote its sustained growth.

### Major Employer

A significant historical reason underlying the perceived increasing importance of retailing is that its contribution to the economy is much more visible in the modern era than it was in the past. Due to the Cobble income of couple, they likely to make their purchases at retail stores. All products are available under one roof. There by you can save the time, efforts, save money and enjoy the shopping.

### Retailers as Gatekeepers

Retailers are becoming less important in their role as gatekeepers within the channel of distribution. In the past, when suppliers were dominant, retailer supplied the merchandise that was on offer and consumers selected from this. However, as retailer have become significantly more powerful they are more able to exert their power over supplier and stock only the brands they wish to sell, depending on their overall retail strategy and supplier relationship.

### Retailers Diversifying their Activities

Large retail multiple chains are increasingly looking for new opportunities – new area in which to grow their business. This is especially the case in markets with highly developed retail structures where competition is fierce and regulation after restricts the development of further stores. The strategy of expansion has been for retailers to move away from their core business and into broader retail activities. Moving from the food sector to clothing or diversifying financial services. It is in part of a reflection of the high esteem in which retailer are held that many of the personal banking services are providing to be a success. Customers seem to be displaying increasing loyalty to the retailer fascia or brand rather than manufacturer brands.

### Organizations Growing on an International Scale

Increasingly retailers are also expanding their business by moving internationally. Although there have long been examples of international retailers, they have focused mainly on the luxury goods markets; it was not until the late 1980s that the process of retail internationalization occurred on any significant scale.

### Grow on Cost Perspective

From a cost perspective, retailing is a significant field of study. In the U.S.A, on an average, 31 cents of every dollar spent in department stores, 44 cents spent in furniture and home furnishings stores, 27 cents spent in grocery stores go to the retailer to cover the operating costs, activities performed, and profits. Cost includes rent, display, wages, ads and maintenance. Only a small part of each dollar is profit.

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*Task* Name the top ten retailers of the world and try to find out how much they contribute to the GDP of their home nation.

### Self Assessment

State whether the following statements are true or false:

10. Retail sector makes an important contribution to the GDP of a nation.
11. Retailers also act as gatekeepers.

## 1.5 Global Retail Market

Retailing is increasingly a global business. A more structured retail industry with more multiple retailers (those with more than one outlet) is a sign that an economy is developing, as organizations specialize and gain economies of scale. Additionally, when disposable incomes rise, retailers play an active part in distributing increasingly discretionary goods to centres of population. Emerging markets are a real (although highly complex) opportunity for experienced retailers, especially if they are faced with high levels of retail provision and therefore competition in their traditional markets.

As the artificial barriers to trade, such as import duty and quota restrictions, are removed from the global economy, many retailers will view the world as their marketplace and make sourcing and outlet operation decisions on a set of criteria that are relevant across the globe.

*Example:* In the UK some of the strongest recent entrants to the retail market are non-domestic players, such as Wal-Mart, IKEA, Marks and Spencer's, Big Bazaar and some modern age retailers are having considerable success on a global basis, such as Tesco, B&Q, Carrefour etc.

However, long distances, political and cultural complexities are huge challenges to retailers, which can only be overcome by the strongest contenders. International retailing activities have often stemmed from retailers seeing opportunities for formats that are underrepresented in new markets, such as the entry by the 'hard discount' supermarket operators (Aldi, Netto, Lidl) into the UK in the early 1990s and Vishal Megamart, Big Bazaar, Shoppers' Stop in India in the late 1990s.

*Did u know?* Brazil is now ranked as the top developing economy for global retail expansion, according to the 10th annual Global Retail development Index (GRDI) released last week by A.T. Kearney.

*Notes* A.T Kearney Global Retail Development Index, 2011

A.T. Kearney says the 2011 GRDI ranking mirrors the dramatic changes that have taken place in global markets, and the varying impacts they have had on different emerging economies.

For example, South American countries have fared well during the recession, posting an impressive 6 percent GDP growth in 2010. In addition to Brazil's top ranking, three other

*Contd...*

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South American countries made the Top 10 of the GRDI: Uruguay, Chile and Peru. Brazil jumped to first place from no.5 in last year's GRDI. Likewise, Uruguay climbed up the rankings to no.2 from no.8 last year, and Chile rose from #6 in 2010 to no.3 this year.

The Middle East and North Africa also ranked highly in the 2011 GRDI. Political unrest in countries like Egypt and Tunisia are undoubtedly current challenges to growth, but Kuwait, Saudi Arabia, and the UAE (all top 10 GRDI markets in 2011) have not experienced the turmoil of some of their neighbors and are expected to remain stable going forward.

Here is a complete list of the Top 10 GRDI markets in 2011:

1. Brazil
2. Uruguay
3. Chile
4. India
5. Kuwait
6. China
7. Saudi Arabia
8. Peru
9. U.A.E.
10. Turkey

Over the past ten years, the GRDI study has shown that global retail expansion is a portfolio game. Retailers must have an optimal mix of countries, formats and operating models to succeed.

***Source:*** www.forums.industryweek.com / A.T Kearney

### Self Assessment

Fill in the blanks:

12. ..... is the world's biggest retailer.
13. ..... is at the top of GRDI.

## 1.6 Career in Retail

Today, the retail industry is considered amongst the largest in India, and is ever-growing. This is because as long as there are buyers, this industry will prosper. In the last couple of years, the buying capacity of an average Indian citizen has increased. This is because of various factors; prime amongst them is the large pay packets.

Apart from that people have become more aware of themselves, and are willing additional rupees to feel good and look good. And all this has positive impact for job seekers – full time and part time.

Thus, today a career in retail is not a difficult one to enter to. It is exciting because of the number of people one gets to interact with. Apart from that one also needs to be aware of the changing trends in order to increase sales.

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Sometimes being employed in the retail industry can be frustrating, especially when the customer is not satisfied with their purchase, or they start haggling over the price. But all in all there is a lot of excitement, with a good enough pay pack, depending where one is employed.

There are also many avenues where the world of retailing jobs has opened up. This brings in the need for an increasing number of qualified professionals. Interestingly, there are more and more students who have taken up Retailing, as their subject of specialization while pursuing their MBA.

The primary reason for the changing scenario in India is the number of malls and departmental stores that have already opened and are yet under construction. Mall Job in retail in India is a major demand. Every retail outlet requires customer-friendly sales executives, who relate to the product. Apart from the brand developers, there are retail specialists as well who look into every aspect to make the product successful amongst the consumers.

With the increasing demand for retail staff it has becoming a task to employ the right kind of staff. In fact, according to many the demand tends to be more than the supply. This situation is arising because of the lack of trained and qualified staff. However, to counter this, the larger retail outlets are prepared to spend some extra money in training their staff.

When hiring retail staff in India, some of the vital pointers to keep in mind, as far as attributes of the staff member is concerned are as follows:

- Communication skills
- Ability to speak in Hindi, and good English speaking skills
- Friendly personality
- Well groomed
- Ability to tackle tricky situations
- A good team member
- Respect for the seniors
- Knowledge of the product
- Family background
- Educational background

Apart from these checkpoints, the employer should maintain a file of the employee, as many young sale persons tend to flick products on display. Some of them also work for thieving gangs. However, address records and identity proofs will maintain optimum security.

While there are numerous retail jobs out there, yet one needs to conduct a thorough retail job search. This is because while generally speaking a retail job is exciting, one needs to ensure that they have chosen the right product.

*Example:* One is interested in cosmetics, but opts for retailing chocolates, and then it could create a lot of frustration in times to come.

But then, for those ready to take up a challenge the product or service does not matter.

There are a number of retail marketing jobs out there, wherein one is not a sales executive, but one who creates and supervises sales strategies in the retail market. It is a challenging job, as marketing is far more difficult than actual selling. In marketing one is involved in brand building and brand maintaining. In sales, it's all about selling, there and then.

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Being a leader is not always the easiest of tasks, but yet it is challenging and keeps one on their toes all the time. The manager, or team leader has to stand on top and yet be a team member. Tough task, nonetheless! Where is all this leading to? Well, this all connects to a career in the field of retail management.

A retail manager is hired to supervise the entire team of salespersons, preferably regarded as sales executives. The manager is placed higher in hierarchy and is responsible for the sales being made. The manager is also responsible for hiring and firing staff, as per requirement.

Generally fresh retail management graduates get jobs in the following posts, from where they rise:

- Sales associate
- Department manager
- Assistant store manager
- Customer service representative
- Merchandising assistant
- Management trainee

As one rises in designation, the responsibilities also increase. But all said and done it is an exciting option.

Now-a-days youngsters, as in studying adolescents seemed to have found exciting ways of keeping themselves beyond the short college hours. An increasing number of young adults are always on the lookout for opportunities to earn money to pay for their fees, as well as lead an independent life. Especially those studying in a different city; this is a positive trend on many counts.

One of the most interesting options is the retail sales jobs. With the increasing number of boutiques, malls and departmental stores, the youth are flocking to get jobs here. The pay is good and they get to interact with a large number of people daily. And primarily it is a brilliant training ground for their future career.

*Case Study*

## Case: Developing-a-career-path-in-retail

***Introduction***

Harrods of London is a British institution. It is probably the most well-known and respected retail store in the world. For 162 years, Harrods has built its unique reputation supported by its key brand values - British; Luxury; Innovation; Sensation; Service. Harrods employs approximately 5,000 people from 86 different nationalities who deal with up to 100,000 customers a day at peak times.

Harrods needs employees who can face the challenges that its reputation and standards bring. It needs people who are looking for an exciting and rewarding long-term career with responsibility and prospects. Its challenge is to find (and retain) employees with the right mix of skills and abilities, who can be developed to become the managers of the future.

To achieve this, Harrods has to counter some of the negative perceptions about working in retail. Working in a shop has traditionally been seen as low-skilled - with long hours,

*Contd...*

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poor pay and little chance of promotion. However, because quality is key at Harrods, employees are well-paid, respected and have clear career paths open to them. Senior managers at Harrods have come from all walks of life and started out with various levels of qualifications. All have benefited from development opportunities provided by the company.

***The importance of training and development***

Training and development is vital to any business. Its purpose at Harrods is to better the performance of employees to enable Harrods to meet its business goals. For example, at Harrods the Sales Academy develops employees' sales skills, leading to increased sales when they return to the shop floor. Allowing employees to acquire new skills, expertise and qualifications supports employee progression which leads to increased motivation. This supports Harrods' retention strategies.

Training is about gaining the skills needed for a job. These may be learned at the place of work (on-the-job) or away from work (off-the-job). On-the-job training tends to be more cost-effective and relevant. However, off-the-job training is usually carried out by professional trainers. It also occurs away from the distractions of work. Training tends to have very specific and measurable goals, such as operating an IT system or till, understanding a process, or performing certain procedures (for example, cashing up).

Development is more about the individual - making him or her more efficient at a job or capable of facing different responsibilities and challenges. Development concentrates on the broader skills that are applicable to a wider variety of situations, such as thinking creatively, decision-making and managing people. In short, training is typically linked to a particular subject matter and is applicable to that subject only, while development is based on growing broader skills which can be used in many situations.

Harrods employees come from diverse backgrounds and different nationalities. They have differing levels of competency, education and experience. Harrods offers comprehensive Learning & Development opportunities. These opportunities are offered at a variety of levels to suit the needs of all Harrods employees. These range from workshops for Sales Associates and Warehouse Operatives to developmental programmes for senior managers.

Amber is a Harrods Retail Manager who started as a Sales Associate at Harrods through an online application. Harrods has created a web site www.harrodscareers.com to enable candidates to apply for roles easily.

'I wasn't sure I would get the job but it seemed a really challenging role and I was keen to try. I had only a little background in retail and none at all in the luxury retail market. Mostly I had been working in the hospitality sector.' Amber

However, Harrods Learning and Development ensured Amber acquired the skills she needed to carry out her role. Development at Harrods is linked to the company's Business Competencies which fall under four headings: Working at Harrods, Your Impact on Others, Making Things Happen, Focus on Improvements.

Each Business Competency is supported by workshops so that every skill can be improved. Learning is offered off-the-job in 'bite-size' sessions. These sessions give employees the chance to learn more effectively over a much shorter period, reducing time away from work and bringing a tightly focused approach to skills development. They have been described as concise and punchy and a workshop typically lasts 90 minutes. All the Business Competencies are supported by self-help guides which are run either on-or off-the-job and include activities such as observation and review, reading, and 'one minute guides' offering top tips and tactics.

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Identifying key competencies also helps Harrods to design its recruitment process to ensure that it attracts the best candidates. They must have the right approach to sales, customer service and decision-making and support the 'theatre of retail' that underpins Harrods' reputation. This is about flair, showmanship and expertise. Harrods Learning and Development department must be proactive in responding to changing customer needs. For example, Harrods has introduced cultural awareness training for employees better to serve the increasing number of customers from the Middle East, China, Brazil and Russia.

***Developing a career path***

Harrods stands out from its competitors by providing a wide variety of development opportunities for all employees. This means the business can recruit and retain good managers and maintain improvements in sales and business performance. Individuals' self-esteem and motivation is raised. Once a year, managers talk to employees about their progress and ambitions during appraisals. Employees then identify their personal development targets.

The sales and service programmes include the 'Harrods Welcome'. This induction provides essential training for new employees, such as Harrods' brand values and The Theatre of Selling. Other courses ensure the effectiveness of Harrods sales associates:

'Your Theatre' is a two-day programme to improve sales skills and provide the highest level of customer service. It introduces the idea of selling as a 'theatre' requiring specific skills and expertise. 'The Theatre of Selling' element covers personal presentation, effective questioning, product selection and closing the sale. 'The Science of Selling' develops employee awareness of customer types and needs.

The Harrods Fashion Programme is run in partnership with the London College of Fashion. It enables sales associates to understand the entire 'product journey' from design to sale.

The School of Communication offers voice, body language and presentation skills workshops.

For suitable candidates, the Harrods Sales Degree provides the high level sales skills the company needs. This is the first and only degree of its kind in Sales. It is recognised globally and can be completed in two years.

High Potential programmes are concerned with succession planning. They are aimed at ensuring there is a strong pipeline of potential senior managers. The Harrods Management Programme develops ambitious and career-focused employees into a management role. Jessica joined the company after graduating with a degree in Art History. After just 3 years she is now a Harrods Retail Manager. She runs the Designer Collection sales floor, managing 26 employees and controlling a substantial budget.

'My quick progression to Retail Manager was helped by the fact that Harrods allows people to take control of their own development to a large extent. Harrods supports you if you are keen to get on. The Harrods Management Programme gave me eight months of training, both in-house and external. This, together with the support of my mentor, has equipped me with the specific skills I need to carry out my job effectively′ Jessica said.

Harrods offers other programmes:

- The Business Academy which supports managers as they progress into more senior positions.
- The Oxford Summer School which is a challenging academic learning opportunity held at Keble College, Oxford. This is designed to highlight some of the problems,

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decisions and challenges of running a retail business. 10 prized places are awarded to high potential managers.

- The Buying Academy which develops our Assistant Buyers into Buyers of the future.

***Retaining talent***

Employee retention is important for businesses. A low employee turnover can keep recruitment costs down. It also ensures a skilled and experienced workforce. Employee development is beneficial for both the employee and the business. However, sometimes employees think that their new-found skills will enable them to gain a better job elsewhere. Harrods, therefore, has put in place strategies to keep its talented Retail Managers. It has found that employees who develop within the company tend to stay. Those brought in from outside are more likely to leave. Another vital part of retention for Harrods involves identifying the 'DNA' (key factors) of great sales people. It then matches applicants to these factors.

To reduce employee turnover Harrods has developed a better management structure, improved benefits and created initiatives which make Harrods a 'great place to work'. Harrods has put in place a system of rewards and incentives:

- An excellent package of employee benefits including good pay, employee discounts and a good working environment.
- Commission and sales bonuses for individuals and teams.
- Improved work schedules which help to give a better work-life balance.

Harrods also has systems to improve employee communications so that it can listen to feedback and address any issues. There is an Internal Communications department, regular performance assessment meetings and SMART targets for employees to reach. These initiatives have seen employee turnover fall from 51.4% in 2006 to 25% in November 2011.

***Careers at Harrods***

Harrods ensures there is a clear career path for any employee, from any background. Three key levels in Harrods are the sales employee, department managers and senior managers. At each level, employees can benefit from Harrods development programmes in order to build a career.

James is a Sales Associate and one of Harrods first Sales Degree students. When an injury prevented him from following his previously chosen career in contemporary dance, he applied to Harrods. He has never looked back. Harrods training has given him transferable skills. He has been able to work within more than one department, providing the same high levels of customer experience.

'The course is absolutely fantastic. I feel very privileged to be on it. It is very much focused on work-based learning. It provides real insight into consumer psychology and behaviour - why people do what they do and how they shop - and how to deal with challenging situations. My managers are very supportive. If I need to take some time out during the day to make notes on an interesting situation, then I can. It has offered some amazing opportunities, such as giving me behind-the-scenes information on how Harrods works and increasing my awareness of its global influence. I have realised that Harrods offers great benefits, good conditions and an opportunity to work amongst fantastic people.' James said.

James will complete his BA Honours in 2012. He believes that the qualification will provide the additional skills he needs before he steps up to the next level at Harrods. James now expects his future to be with Harrods.

Amber's application was successful because of the customer skills she was able to bring from previous experiences. She is now the Retail Manager of Childrenswear. Her

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responsibilities range from overseeing budgets to managing both stock and people, as well as upholding the Harrods standards of service. By taking advantage of the Harrods Management Programme, Amber has risen to a better paid and more responsible job.

'Retail is a challenging environment but I find it exciting. Although the company aims to hire the right people for the job in the first place, there is a whole range of training available to ensure we are equipped with key skills, for example, brand training for all the different ranges we offer. Harrods promotes the view that all employees should manage themselves responsibly and take advantage of opportunities offered.' Amber defines.

Sabrina joined Harrods 10 years ago as a part-time Sales Associate whilst studying for her degree. After graduating she worked in Human Resources (HR) and, with Harrods support, gained further qualifications. This led to a series of promotions and experience in other roles including Business Manager. Her current role is Head of Personal Shopping, managing a team of 50 people. Personal shopping is about creativity and exceptional service. Her role requires strong organisational skills, commercial understanding and practical and strategic thinking. Sabrina's experiences at Harrods shows how diverse a career in the retail environment can be.

'Knowing that my senior managers recognised my ability and supported me in my career development has made me eternally loyal to the company. Before coming to Harrods I hadn't really considered a career in retail, now I can't imagine working anywhere else. The thing I enjoy most about working at Harrods is that every day is unique and the work is interesting and innovative.' Sabrina defined.

**Conclusion**

People may have negative ideas about retail work based on their own experiences of part-time or vacation work. Harrods is different as it is possible to start building a career from any level.

Harrods is about the 'theatre' of retail. As with a theatre production, however, excellence is built on hard work and basic skills. The flair must be underpinned with discipline and attending to day-to-day issues, such as unpacking and displaying stock and managing employees.

Providing development opportunities is a key factor in how Harrods maintains its high levels of employee retention. The business looks after its employees and helps them along their career path. As a result employees are loyal to the company and continue to offer exceptional levels of commitment and service.

***Questions:***

1. Study and analyze the case.
2. Write down the case facts.
3. What do you infer from it?

***Source:*** http://businesscasestudies.co.uk/harrods/developing-a-career-path-in-retail/introduction.html#ixzz22YlAhU00

## Self Assessment

State whether the following statements are true or false:

14. A retail manager is hired to supervise the entire team of salespersons, preferably regarded as sales executives.
15. Retail sales is an exciting career option.

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## 1.7 Summary

- Retailing in simple term can be defined as "Retailing is the business activity of selling goods and services to the final consumer". Retailing can be defined as the business products and services to consumers for their own use. It has its origin in the French word, retailer meaning 'to cut a piece off'.
- The term retailing applies not only to the selling of tangible products like loaves of bread or pairs of shoes, but also to the selling of service products.
- Retailing, one of the largest sectors in the global economy, has become the most active and attractive sector of the last decade.
- Retailers perform various functions like providing assortments, sorting, breaking the bulk, rendering services, bearing risk, serve as a channel of communication, transportation, advertising and holding inventory. They significantly contribute towards increasing the product value and satisfying the consumers.
- This unit also addresses the question of how the Marketing Mix framework can be used to analyse the competitive standing of a retail business organization and how the outcome of this analysis can then be translated into practical tactics which capitalize on the organization's strengths.
- To build a competitive advantage that can be sustained, retailers need to pay special attention to aspects like price, location, merchandise, service and communications.
- There are a number of retail marketing jobs out there, wherein one is not a sales executive, but one who creates and supervises sales strategies in the retail market.

## 1.8 Keywords

***Breaking Bulk:*** Offering the products in smaller quantities tailored to individual consumers and household consumption patterns and thereby reducing transportation and inventory costs.

***Department Stores:*** it is a retail establishment which specializes in satisfying a wide range of the consumer's personal and residential durable goods product needs.

***Gatekeeper:*** Member of a decision-making unit or social group who acts to prevent or discourage a purchase by controlling the flow of information and/or access to people in the buying center.

***Kiosk:*** A small open-fronted hut or cubicle from which newspapers, refreshments, tickets, etc., are sold.

***Marketing:*** The process by which individuals and groups obtain what they want and need through creating, offering and freely exchanging products and services of value with others.

***Merchandise:*** Goods to be bought and sold.

***Retailing:*** Business activity of selling goods and services to final consumers.

## 1.9 Review Questions

1. Describe the act of retailing. Why do you think retailing is important?
2. "Retailers provide a collection of service benefits to their customers." Substantiate.
3. Discuss the functions of retailing with the help of suitable examples.
4. Explain how sorting by the retailer helps you as a customer.

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5. Describe the dimensions of retail equation.
6. "Retailing is not only an integral part of our economic structure but also shapes and is shaped by, our way of life." Discuss.
7. Explain the sudden surge in the global retail market. Why do developing countries like Brazil and India constantly feature in the top of Global Retail Development Index?
8. Discuss the pros and cons of a career in retail.
9. What are the jobs available in retail?
10. Explain the concept of 'breaking bulk'. What is its relevance?

### Answers: Self Assessment

1. True
2. False
3. True
4. Assortment
5. Sorting
6. Inventory
7. Marketing
8. Service
9. Direct
10. True
11. True
12. Wal-Mart
13. Brazil
14. True
15. True

## 1.10 Further Readings


*Books*

Bajaj, Tuli and Srivastava, *Retail Management*, New Delhi: Oxford University Press

Gibson G. Vedamani, *Retail Management*, Mumbai: Jaico Publishing House

Lewison, D. M. and Delozier, W. M., *Retailing*, Columbus: Merrill Publishing Co.

*Online links*

http://www.knowthis.com/principles-of-marketing-tutorials/retailing/what-is-retailing/

http://www.thehindubusinessline.in/praxis/pr0301/03010380.pdf

http://www.mbaknol.com/retail-management/functions-of-retailing/

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# Unit 2: Retail in India

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## Objectives

After studying this unit, you should be able to:

- Realise the concept of organised retail
- Trace the evolution of retail in India
- Identify the drivers of retail change in India
- Know the size of retail in India
- Discuss the challenges to retail development in India

## Introduction

Retailing business in India is undergoing rapid transformation. The kirana store is a major element in the retail business in India. The emergence of new retail formats in retailing sector has attracted attention of many like government, large corporations, economists and general public in recent years. The environment of retailing business in India is witnessing several changes on the demand side due to increased income and changes in Indian consumers' preferences. The driving forces in Indian retail sector are: rapid economic development in recent years, changes in consumers' preferences, improvements in civic situation, liberalization policy and globalisation.

The Indian retail industry is the fifth largest in the world. Comprising of organized and unorganized sectors, India retail industry is one of the fastest growing industries in India, especially over the last few years. Though initially, the retail industry in India was mostly unorganized, however with the change of tastes and preferences of the consumers, the industry is getting more popular these days and getting organized as well. With growing market demand, the industry is expected to grow at a pace of 25-30% annually. The India retail industry expectedly grew from ₹ 35,000 crore in 2004-05 to ₹ 109,000 crore in the year 2010.

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## 2.1 Organised Retail

As per the definition retail industry comprises of organized and unorganized sectors. Corporate retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc. These include the corporate-backed hypermarkets and retail chains, and also the privately owned large retail businesses. Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing.

*Example:* The local *kirana* shops, owner operated general stores, *paan/beedi* shops, convenience stores, hand cart and pavement vendors, etc.

The self-organized sector is characterized by the lari-galla vendors (also known as "mobile supermarket") seen in every Indian by-lane and is, therefore, difficult to track, measure and analyse. But they do know their business – these lowest cost retailers can be found everywhere from village by-lanes to where big malls are situated. As far as location is concerned, these retailers have succeeded beyond all doubt. They have neither village nor city-wide ambitions nor plans – their aim is simply a long walk down the end of the next lane. This mode of "mobile retailers" is neither scalable nor viable over the longer term, but is certainly replicable all over India. Most retailing of fresh foods in India occurs in Mandis and roadside hawker parks. These are highly organized in their own way. If we put all these hawkers together they almost measure up to a large supermarket. In India around 97%-98% of the retail industry is unorganized.

*Example:* Among the organized ones the already established corporate retailers in India are Pantaloon Retail, Shoppers' Stop, Spencer's, Hyper CITY, Lifestyle, Subhiksha & Reliance Retail etc.

Organised retail has not penetrated and will not penetrate rural India for obvious reasons – it is just unviable. It is only the urban areas that organised retail is slowly but not steadily growing in.

The difference can also be seen in terms of kind of consumers they attract. The lower stratum represents people who are either daily-wagers or who work for the unorganised trade and industry; Their purchases are meagre and only the mom-and-pop stores will entertain them. Those belonging to the lower end of the middle – income group are generally employees of State/Central governments and the organised private sector. Not generally upwardly mobile, this group of employees has over a period of time perfected the art of living within their means and what is more, they end up saving a bit too. To these people too, organised retail makes little sense since they cannot afford to pay cash down for their purchases. They buy from the mom-and-pop stores on credit during the month and settle the bill when they receive their salaries in the first week of the succeeding month. At best, the lower end of the middle-income group may patronise organised retail for purchase of vegetables because the vegetable vendor does not provide credit anyway.

Those belonging to the upper middle income group and higher income group and living in cities have been increasingly patronising organised trade thanks to the latter's proliferation. That way speaking, they have traditionally stayed away from the mom-and-pop stores as far as possible.

Today people look for better quality product at cheap rate, better service, better ambience for shopping and better shopping experience. Organized retail promises to provide all these.

*Task* Name some big players in the organised retail market in India. Find out about their origin and their present business areas.

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## Self Assessment

Fill in the blanks:

1. ..... retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc.
2. ..... retailing refers to traditional formats of low cost retailing.
3. Big Bazaar and More 4 U are a part of ..... retailing.

## 2.2 Evolution of Retail in India

Today the general store, stacked with barrels, bins and sacks filled with everything from soaps to pickles, has all but disappointed almost through the world. And in its place we find the more refined self service "cash and carry' organized retail stores in the form of supermarkets, department stores, shopping malls and the like. These stores signified the beginning of organized retailing and its evolution across the world. This new breed of organized retailers have their shelves neatly stacked with a huge variety of products which include anything from cans, packed food, bread, dairy products, fresh meat and fish, apparel, shoes, furniture or any conceivable item one can think of. This phenomenon of new fund modern super markets, department stores is in sharp contrast to the old and orthodox grocery stores that had existed.

### Story of Retail Revolution

It is the revolution in the shopping habits of the people across the entire world, which has virtually brought the super market to the main street. This revolution is unparallel in human history as it has engendered the development of distribution system that delivers food and other products to the consumer in unprecedented abundance, variety and quality retailing was never as it is seen today. It has gone through its natural process of evolution in all areas from the initial concept of the super market and department store to the shopping mall as it exists today.

*Did u know?* The first departmental store in the world was founded in Paris in 1852 by Aristide Boucicaut and was named Bon Marche.

At that point of time, the department store business was a bare-bones operation. It was only after World War-II that retailers in the west began to upgrade their services, facilities and merchandise selection to offer a fascinating way of additional benefits to consumers through organized retailing.

### One Stop Shopping

The changes occur in retail sector due to the changes in environmental conditions. In the early part of the 20th century, the American housewife, which shopping for her family's dinner, thought various products at various places and tired a lot. Then she thought that if all products available under one roof; there by we can save our time/ effort/money. The retailers trapped the need and had launched the biggest hypermarkets. Then these retail stores started to sell food, varieties of products and variety of schemes introduced in order to draw the attention of the customers.

*Example:* Big Bazaar, Spencer.

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### Supermarket Revolution

The revolution of supermarket was first sparked off in the 1920's, and by the 1950's it had won acclaim almost throughout America with its span ranging from a global depression to global war; this revolution had literally seen it all. In the 1920, one could not even dream of retailing as it exists today.

Initially, many items used to come in bulk and were sold as it is at the retail outlets. Potatoes were sold from barrels and later from 100-pound sacks, while sugar was sold from 100-pound sacks and better in tabs. The retailers were keen to acquire the know-how to upgrade their quantity and service for the consumers and to develop the best stores possible. They may become business friends and some even became family friends.

### Pleasure of Self-service Concept

By the 1930s, the self-service supermarket gained immense popularity due to the choice leftover on consumers (house wives). It was sparked off by the success of Michael Kullen, an independent operator who opened the King Kullen supermarket in Jamaica, New York. Storeowners found that housewives enjoy the shopping. Because when they are preparing the list of require items for daily purpose, they may forget, there by again they need to shop. Here picking their groceries from shelves themselves, piling their purchase into shopping carts and wheeling the carts through the checkout counters. As supermarkets grew, they extended the self-service concept to other foods besides groceries.

*Example:* More 4 U, Big Bazaar.

### Globalization of Retailing

Due to the Globalization Foreign investors launched their businesses in India where the expenditure is very less to start any business in India. The biggest corporate giants entered into India and disturbed the Indian businesses.

Today, retailers from all over the world are venturing beyond their own borders to establish stores even in other countries. In fact, the business of retailing cans clearly defined as a global business. Many retailers have realized and have therefore made international expansion an integral part of their overall strategy. The immense impact of communication technology has narrowed the cultural gap between countries over the decades.

Today's consumers in the developed or developing countries, share almost the same important characteristics that the best American specialty retailers already understand from their own domestic experience. Consumers are now far more knowledgeable than ever before about products, brands and prices that they have ever been in history. The advancement of communication technologies has made a major contribution towards educating consumers about the products and services they require and the Internet explosion is bound to further trend.

### Size of the Operations

"***Size***" has become the keyword in international retailing and the larger the size of the operations, the better the economies of scale and chances of survival in this vicious war to win over the consumer. Some global retailers are now taking over existing retail chains in a desperate bid to consolidate their operation in this world of retailing. It is evident that eventually the comparatively smaller retail chain will be unable to compete in the market or operate on their own for long, and will soon sellout or merge with the much larger global retail chains.

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The increasing magnitude of retailing as a business in absolute terms can also be estimated by the fact that the sector accounts for a major portion of the GDP of many countries. Our country has been extremely slow in responding to the trend of globalization of retailing, as a result of which many of the distribution and retailing methods adopted here are still considered to be pre-historic. While many countries around the world have started considering retailing as an integral part of their social infrastructure, India still has to realize the benefits of organized retailing that accrue to society at large.

### Self Assessment

Fill in the blanks:

4. Vishal Megamart and Big Bazaar provide ..... shopping experience to the retail consumers.
5. The ..... supermarket gained immense popularity due to the choice leftover on consumers.

## 2.3 Drivers of Retail Change in India

Following are the drivers of retail change in India:

- Raising incomes and improvements in infrastructure are enlarging consumer markets an accelerating the convergence of consumer tastes
- Liberalization of the Indian Economy
- Increase in spending per capita income
- Advent of dual income familiar also helps in the growth of retailer sector
- Shift in consumer demand to foreign brands like McDonald, Sony, and Panasonic etc.
- Consumer preference for shopping in new environment.
- The Internet revolution is making the Indian consumer more accessible to the growing influence of domestic and foreign retail chains. Reach of satellite T.V channel is helping in creating awareness about global products for local markets

### Self Assessment

State whether the following statements are true or false:

6. Liberalisation of the Indian economy has posed a lot of restrictions and thereby the growth of retail sector has suffered.
7. Changing customer preferences have contributed a great deal in expansion of retail sector.
8. Availability of quality real estate has fuelled the expansion of retailing in India.

## 2.4 Size of Retail in India

Organized retailing accounts for 6% of the industry turnover, comprising value-added foods worth ₹ 770 billion, music and entertainment worth ₹ 40 billion and color cosmetics worth ₹ 12 billion. Big business houses today are in a position to provide Indian masses with shopping satisfaction, entertainment, quality products, polite salespersons, product information and

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discounts. Though current margins are low due to high property cost and poor infrastructure, this scenario is going to change. Retailing is the only business where one buys in credit and sells for cash. Further, there are 30 million houses with an annual income of more than ₹ 150,000 and this is expected to grow to 80 million by 2008. Financial institutions are encouraging such ventures, as there is permission for opening up of branded foreign retail outlets in India.

*Caution* Today the number of smaller retailers with a business less than ₹ 40000 per annum has grown to a greater percentage, whereas the number of large stores with a turnover of Rs 150,000 has increased from 2.8% to 6.5%. So, the smaller outlets are growing faster than large retailers. However, changing shopping attitudes of an average customer will make future growth increasingly difficult for the unorganized retail sector.

### Clothing in India

Retail clothing is a contemporary clothing concept, gaining fast popularity in India. With the growth in earning opportunities and consequently more disposable incomes available with the Indian middle class, retailing is assuming new dimensions in the country. And when it comes to retail clothing**,** there obviously is no dearth of color, style and substance in the Indian scenario.

The concept of retail clothing though has undergone a huge transformation and smaller retail stores selling clothes are gradually making way for big, impressive shopping malls and plazas. The media onslaught and greater availability of means of information has resulted in people finding their desire and expectations in almost all spheres of life increasing continuously. With greater and wider number of choices being available in the market today, the demand for better option in terms of retail clothing too has gone up. In big cities especially, there is increasing number of retail outlets that cater to the requirements of various classes of people in the society. Each dress is sold off at different prices. During festivals and other popular occasions, one comes across special discounts and offers given as part of marketing and sales promotion.

With retail shopping assuming new dimensions in India, different types of clothing such as formal, informal, casual, western, denim, fashion and many others are getting launched now and then, aimed at specific audiences. While consumers have the advantage of getting all such retail clotting of different hue and colors under a single roof, the companies get the benefit of increasing number of buyers. With some of the leading corporate houses of the country joining the retail bandwagon, the retail clothing industry is all set for a big leap forward in near future.

*Example:* Some of the leaders in the field of retail clothing in India are:

1. Pantaloons
2. Westside
3. Raymond
4. Bombay Dyeing

In the retail outlets, one is provided with retail clothes of all colors, shapes and price range to suit the needs of different types of retail clothing consumers. With Indian economy on a fast trajectory currently, the incomes and expectations of people are going up. The advent of

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globalization has further made the latest retail clothing ranges accessible all across the country. While big stores with impressive décor and ambiance have various sections for men, women, kids and teenagers that cater to most of their needs, there are the traditional retail stores that continues to act as the "good, old, friendly shops", offering their products in not-so-classy ways.

### Fashion Retail in India

Fashion is a term commonly used to describe a style of clothing worn by most of people of a country. A clothing style may be introduced as a fashion, but its use becomes a custom after being handed down from generation to generation.

*Did u know?* A fashion that comes and goes is called a Fad.

During the mid-1800's, a mass production of clothing was made fashionable and available to more people for lower prices. This encouraged more people to wear more stylish clothes, which is why we are wearing what we are today. Fashion is something we deal with everyday. Even people who say they don't care what they wear choose clothes every morning that say a lot about them and how they feel that day.

One certain thing in the fashion world is change. We are constantly being bombarded with new fashion ideas from music, videos, books, and television. Movies also have a big impact on what people wear.

*Example:* Ray-Ban sold more sunglasses after the movie *Men in Black*. Sometimes a trend is worldwide. Back in the 1950s, teenagers everywhere dressed like Elvis Presley.

Fashion is big business. More people are involved in the buying, selling and production of clothing than any other business in the world. Every day, millions of workers design, sew, glue, dye, and transport clothing to stores. Ads on buses, billboards and magazines give us ideas about what to wear, consciously, or subconsciously.

*Caselet*

## Case: Fashion Drives Retail Boom-Present Scenario

Fashion brand contribute nearly 55% of organized retail in the country, revealed Mr. B.S. Nagesh, M. D, Shoppers' stop limited after releasing the 4th edition of images year book at the Technopark meet in New Delhi recently. Quoting figures from the images study of the Fashion and life style market, he said, "of the total organized retail market of ₹ 55,000 crore the business of branded fashion (in clothing, textiles, footwear, jewellery and accessories) accounts for ₹ 30,080 crore."

Fashion gave the necessary "Push" to get retail activities on to the growth trajectory and with the emergence of a new, young and confident India which is more internationally aligned, the stage is set for retailing of life style categories to take off" added Mr. Bijon Kurien, President and chief executive, life style 7 luxury verticals, Reliance Retail.

The total Fashion sector estimated at ₹ 1,91,400 crore formed about 15% of the countries retail market of ₹ 12,00,000 crore. Elaborated Mr. R.S. Roy, editorial Director of the Images year Book. The major share ₹ 1,13,500 crore, in the fashion sector came from clothing,

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textiles and fashion accessories, which is 9% of the overall retail market. Nearly 19 percent of this market is organized. Of the total organized market clothing, textile and fashion accessories account for 39%.

The domestic clothing, textiles and fashion accessories market is estimated to be at ₹ 80,000 crore and about 13.6% of this market is believed to be organized. Apparel retail is the largest segment of this sector and accounts for almost 39% of the organized retail sector. The men's apparel market in India, valued at ₹ 32,640 crore for the year 2004, has grown nearly 12 percent over the previous year in value terms. The women's wear market is estimated to have grown at about 13.4% over the previous year in the year 2004 over the previous year in value terms.

The textile manufacturer was among the first to get into branded men swear in the Indian market. This sector is perhaps the most developed in terms of supply chain sophistication in the branded clothing market. The apparel sector can be broadly classified into Men and women's apparel and children's wear. Each of them further classified into formal, causal, Indian wear, inner wear, sports wear and Accessories.

### Books and Music

Increasing household incomes due to better economic opportunities have encouraged consumer expenditure on leisure and personal goods in the country. There are specialized retailers for each category of products (books, music products) in this sector.

*Did u know?* The book industry is estimated at over ₹ 3,000 crore out of which organized retail accounts for only 7% (at ₹ 210 crore).

This segment is seen to be emerging with text and curriculum books accounting to about 50% of the total sales. The gifting habit in India is catching on fast with books enjoying a significant share, thus expecting this sector to grow by 15% annually. Spend on books and music is still concentrated in metro cities. The size of the Indian music industry, as per this Images-KSA Study, is estimated at ₹ 1100 crore of which about 36 percent is consumed by the pirated market and organized music retailing constitutes about 14 percent, equivalent to ₹ 150 crore. Pacing the growing demand for books, leading bookstores and retail chains such as Oxford, Landmark and Crosswords all are increasing their stores space from an average size of 8,000 sq feet to 15,000 sq feet that is around eight times that of the traditional stores. So that these stores can provide facilities to its readers such as reading, drinking tea as well as listening to and buying music and movies. Dehradun based 'The English Book Depot Book Café' is a classic example of changing perception of book retailing.

According to Market Research Indian Retail Overview, 2006 the performance of some of the leading music and gift retailers show that retail presence during 2005 and 2006 grew by 20 per cent. Further, there was a growth of 13 per cent in 2005 and 29 per cent in 2006, in terms of outlets.

*Example:* Reliance Retail Limited launches its first Books and Music Specialty Store "RelianceTimeOut", in Bangalore.

After the successful launch of Reliance Fresh, Reliance Mart, Reliance Digital, Reliance Trendz, Reliance Footprint, Reliance Wellness and Reliance Jewels, this is the 8th format of stores from Reliance Retail to be launched in India. Reliance Retail Limited (RRL) announced the launch of a new specialty store "Reliance TimeOut" on Cunningham Road in Bangalore today. This store houses Books, Music, Stationery, Toys and Gifts.

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Spread over 21,000 sq feet and with over 56,000 products, Reliance TimeOut offers the customers an extensive range of merchandise in Books, Music, Stationery, Toys and Gifts.

Commenting on the launch of Reliance TimeOut, Mr. Bijou Kurien, President and Chief Executive Lifestyle said "In today's world, with all the pressures, stress and workload at office, home and school, we need a place where we can unwind and relax, where we can browse, buy a book, sample some music, choose a gift, buy a toy, or some exclusive stationery for ourselves. At Reliance TimeOut, we offer a comprehensive range of products in these categories along with a fascinating customer experience in a warm, lively ambience".

Reliance TimeOut also has a range of Academic and Professional books and Vernacular books in 6 languages, apart from fiction, popular genres and a huge children's section. To help enhance this experience the store has a kid's wall, where kids can cuddle-up with a book. In Music and Movies Reliance TimeOut have over 12,000 titles sourced from leading international and national music companies. Listening pleasure is enhanced by the imported sound domes which provide hygienic sampling of music. Reliance TimeOut also has a Karaoke Studio where the customer can sing-along with a song of their choice and record it in a professional quality recording studio. There is also a cafe at the store, which makes Reliance TimeOut a wonderful hangout for youth and adults alike.

Searching for your favorite music and books is efficiently handled by a search engine and complemented by knowledgeable and energetic staff, so that customers can easily find what they want in a store of this size.

*Task* The music retailer Planet-M success has ensured that there is a scope for organised music retailing in India. Write an article on the Success story of Planet-M.

### Self Assessment

State whether the following statements are true or false:

9. Retailing is the only business where one buys in credit and sells for cash.
10. Rapid globalisation has further made the latest retail clothing ranges accessible all across the country.
11. More people are involved in the buying, selling and production of clothing than any other business in the world.
12. Reliance's books and music store is called the Reliance Trendz.

## 2.5 Challenges to Retail Development in India

An industry is a group of firms that market products, which are close substitutes for each other (e.g. the car industry, the travel industry). Understanding the sources of competition can help a firm gauge its strengths and weaknesses, and analyze the trends in the industry so that it can position itself optimally for the best returns. Some industries are more profitable than others. Because the dynamics of competitive structure in an industry. The most influential analytical model for assessing the nature of competition in an industry is Michael Porter's Five Forces Model, which is described below:

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**Figure 2.1: Michael Porter's Five Forces Model**

*Caution* Porter explains that there are five forces that determine industry attractiveness and long-run industry profitability. These five "competitive forces" are:

1. The threat of entry of new competitors (new entrants)
2. The threat of substitutes
3. The bargaining power of buyers
4. The bargaining power of suppliers
5. The degree of rivalry between existing competitors

### Threat of New Entrants

New entrants to an industry can raise the level of competition, thereby reducing its attractiveness. The threat of new entrants largely depends on the barriers to entry. High entry barriers exist in some industries (e.g. shipbuilding) whereas other industries are very easy to enter (e.g. estate agency, restaurants). Key barriers to entry include:

(a) Economies of scale

(b) Capital/investment requirements

(c) Customer switching costs

(d) Access to industry distribution channels

(e) The likelihood of retaliation from existing industry players.

*Example:* Reliance Industries set up a petrochemical plant with the highest capacity in the industry of 27 mtpa capacity in Jamnagar, Gujarat. Due to its higher capacity, it was able to achieve economies of scale. This created entry barriers for new players.

Notes

### Threat of Substitutes

The presence of substitute products can lower industry attractiveness and profitability because they limit price levels. The threat of substitute products depends on Buyers' willingness to substitute the relative price and performance of substitutes the costs of switching to substitutes.

*Example:* Tea, Soft drinks, Juices are substitutes for coffee. Because of the existence of these substitutes, the prices charged by companies in the coffee industry are restricted.

### Bargaining Power of Suppliers

Suppliers are the businesses that supply materials and other products into the industry.

The cost of items bought from suppliers (e.g. raw materials, components) can have a significant impact on a company's profitability. If suppliers have high bargaining power over a company, then in theory the company's industry is less attractive. The bargaining power of suppliers will be high when:

- There are many buyers and few dominant suppliers
- There are undifferentiated, highly valued products
- Suppliers threaten to integrate forward into the industry (e.g. brand manufacturers threatening to set up their own retail outlets)
- Buyers do not threaten to integrate backwards into supply
- The industry is not a key customer group to the suppliers.

### Bargaining Power of Buyers

Buyers are the people/organisations who create demand in an industry. The bargaining power of buyers is greater when:

- There are few dominant buyers and many sellers in the industry
- Products are standardized
- Buyers threaten to integrate backward into the industry
- Suppliers do not threaten to integrate forward into the buyer's industry
- The industry is not a key supplying group for buyers.

*Example:* Auto components, Automobile companies are the buyers. Therefore automobile companies command prices because they have higher bargaining power.

### Intensity of Rivalry

The intensity of rivalry between competitors in an industry will depend on:

- ***Structure of competition:*** For example, rivalry is more intense where there are many small or equally sized competitors; rivalry is less when an industry has a clear market leader.
- ***Structure of industry costs:*** For example, industries with **high fixed costs** encourage competitors to fill unused capacity by price cutting.
- ***Degree of differentiation:*** Industries where products are commodities (e.g. steel, coal) have greater rivalry; industries where competitors can differentiate their products have less rivalry.

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- ***Switching costs:*** Rivalry is reduced where buyers have high switching costs - i.e. there is a significant cost associated with the decision to buy a product from an alternative supplier.
- ***Strategic objectives:*** When competitors are pursuing aggressive growth strategies, rivalry is more intense. Where competitors are "milking" profits in a mature industry, the degree of rivalry is less.
- ***Exit barriers:*** When barriers to leaving an industry are high (e.g. the cost of closing down factories) - then competitors tend to exhibit greater rivalry.

*Case Study*

## Case: FoodWorld

Household groceries, at walking distance, at economical prices is FoodWorld's USP. Where from do you get your vegetables and groceries? Pop this question to any housewife and the most likely response is from the neighbourhood vendor selling on a pushcart, or a nearby market, which houses groceries. But both these options make no allowance for hygiene and comfort. This germ of a thought is what set the process for the conception of FoodWorld in Chennai in 1996. From there on, FoodWorld, a joint venture between Dairy Farm International and RPG Gardinier, has gone to add four cities – Bangalore, Pune, Coimbatore, and Hyderabad – at 41 locations.

Raghu Pillai, managing director, FoodWorld says, "We started in Chennai because of the developed retail market, good real estate prospects and cosmopolitan atmosphere. We have the most comprehensive range of products at the most competitive prices." Lower pricing is a function of the volume that the store generates. It gets close to a million customers a year. The throughput in a store ranges from ₹ 20,000 lakh to ₹ 17 crore a month. It has plans to touch the ₹ 1000 crore figure by the year 2003-2004. Says Pillai, "From humble beginnings, today FoodWorld has 12 outlets in Chennai, 14 in Bangalore, 9 in Hyderabad, 4 in Pune, and 2 in Coimbatore. It occupies a total retail space of 100,000 sq. ft and has additional 100,000 sq. ft of warehousing facility. Not content to sit on its laurels, FoodWorld has chalked up plans of setting up 100 stores by December 2000. But instead of venturing into new cities, FoodWorld will consolidate itself in the already existing locations.

Normally groceries, food, and vegetables is a low interest area. So building a brand is much more difficult. To generate and retain interest, FoodWorld runs a host of contests and promos. It has a 52-week promotional calendar with a variety of schemes to attract consumers. Pillai says, "At any given time, there are 150 – 200 products at a certain level of discount."

The layout of the store is designed keeping convenience in mind. For example, pulses are kept at the front, rice at the back, while vegetables to be kept on top. The execution enables vegetables on the top of a basket during a purchase. FoodWorld sources most of its branded groceries from traditional C&F agents, rice from the rice mills, fruit and vegetables from the neighbouring villages or the mandi.

Some of the problems encountered are assessing the best location, attaining economic viability and leveraging synergies. As all volumes are aggregated in the state, generating large enough volumes to leverage it as an advantage is a difficult task. The infrastructure

*Contd...*

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of cold chains and basic infrastructure is missing. Getting trained people to man, the stores has proved another challenge. FoodWorld has the largest number of employees from government and municipal corporation schools.

In India, on an average, there is one retail outlet per thousand people. The industry is poised to grow at 5 – 10 per cent per year over the next 25 years. But to grow at this rate, retail has to grow across all categories of the spectrum.

***Question:*** What external factors FoodWorld exploits to ensure successful existence and expansion of its retailing activities?

***Source:*** A & M, September 30, 2000

### Self Assessment

Fill in the blanks:

13. New entrants to an industry can raise the level of competition, thereby reducing its ..... .
14. ..... are the businesses that supply materials and other products into the industry.
15. Industries where products are commodities, like steel, coal, have ..... rivalry.

## 2.6 Summary

- As per the definition retail industry comprises of organized and unorganized sectors. Corporate retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc.
- Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner operated general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.
- About 47% of India's population is under the age of 20 and this will increase to 55% by 2015. This young population which is technology savvy, watch more than 50 TV satellite channels, and display the highest propensity to spend, will immensely contribute to the growth of the retail sector in the country.
- Due to the couple earning most of the housewives likely to spend their valuable purchases at hypermarkets because of entire products available under one roof.
- The atmospheric conditions are good and time, energy, money can be saved. They likely to purchase readymade foods like curries, instant idli, zelabhi mix; Butter, Cheese what else all needs fulfilled in readymade mode.
- India has a long tradition of eating away from home, at a plethora of roadside eateries, snack shops and loading places.
- Due to the double income of couple they like to have the outside food, thereby they will get the enjoyment, saving time etc.
- But is only in recent decades that an organized, institutional food service sector has started to develop, requiring longer-scale and more organized supply chains.

Notes

## 2.7 Keywords

***Economies of Scale:*** The increase in efficiency of production as the number of goods being produced increases.

***Liberalisation:*** The removal or reduction of restrictions or barriers on the free exchange of goods between nations.

***Organised Retailing:*** It refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc.

***Porter's Five Forces Model:*** This model identifies and analyzes 5 competitive forces that shape every industry, and helps determine an industry's weaknesses and strengths.

***Suppliers:*** They are the businesses that supply materials and other products into the industry.

***Supermarket:*** A large self-service store selling foods and household goods.

***Switching costs:*** The costs incurred when a customer changes from one supplier or marketplace to another.

***Unorganised Retailing:*** It includes the traditional formats of low-cost retailing, for example, the local kirana shops, owner operated general stores, paan/ beedi shops etc.

## 2.8 Review Questions

1. Compare and contrast organised and unorganised retail in India.
2. Do you think organised retail can overtake unorganised retail in India? Why or why not?
3. Discuss how the organised retail evolved in India. Use examples to support your discussion.
4. Comment on the supermarket and the mall revolution in urban towns of India.
5. State the factors that are driving the retail expansion in India.
6. "Retailing is the only business where one buys in credit and sells for cash." Has this helped in the expansion of retail in India? Explain.
7. Describe how clothing and fashion retailing expanded in India.
8. How is the books and music retail market growing in India?
9. Discuss the challenges that the Indian retail industry is facing. How are these challenges affecting Indian retail?
10. Explain why organised retail is here to survive in India.

### Answers: Self Assessment

1. Corporate
2. Unorganised
3. Organised
4. One-stop
5. Self-service
6. False

Notes

7. True
8. True
9. True
10. True
11. False
12. False
13. Attractiveness
14. Suppliers
15. Greater

## 2.9 Further Readings


*Books*

Gibson G. Vedamani, *"Retail Management"*, Mumbai: Jaico Publishing House

R. Sudarshan, S. Ravi Prakash and M. Subrahamanya Sarma (ed.), *"Retail Management: Principles and practices"*, New Delhi: New Century Publications

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Notes

# Unit 3: Theories of Retail Development and Business Models in Retail

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## Objectives

After studying this unit, you should be able to:

- Discuss the evolution of retail formats
- Explain the retail development theories

Notes

- Realise the concept of lifecycle in retail
- Describe the business models in retail
- Describe the traditional business models in Indian retail

## Introduction

In this unit you will learn about the retail models and theories of retail development which one most successful in the current scenario. Retail models are basically based on the four elements buyers, sellers, product and payments. These are the main items of any business model or generally all the planning and process of any organisation depend on these elements. Retail development theories help in explaining the development of retailing and changes in retailing formats. These theories are known for their ability to explain the evolution of retailing and the process by which the retailers gain market power and come to stay as a strong institution of the market.

Concept of life cycle in retail is very similar to product life cycle in marketing of product. Main four stages of life cycle are introduction, growth, maturity and decline.

Business model of anything is very important part of success or failure, in retail business the proper business should necessary. Business model means a proper structure or design of the retail unit, what is the location and what kind of business you want to start.

## 3.1 Evolution of Retail Format

The format of a retailer is the overall appearance and feels that it presents to customers, primarily its look and layout, the sort of range it stocks and the approach taken to pricing.

The format, together with range, pricing and marketing, is one of the key determinants of a retailer's success. Of these, the format is very often the hardest to get right. A good format will both draw in customers (generating footfall) and help present products well to generate sales.

Because the format is so important, growth investors can often benefit by identifying smaller retailers who have recently developed formats that are good enough to provide a platform for sustained growth.

There are numerous types of retailers all over the world. From the small, independent grocery store to the highly sophisticated multi-level department store, the number of retailer is absolutely unlimited. In the business retailing, however, the type of retailer is identified and classified on the basis of the "Store Format" that the respective retailer adopts.

A retailer format is the type of retail mix that the retailer adopts, which includes the following factors:

- The nature of merchandise and service offered by the retailer
- The pricing policy of the merchandise by the retailer
- The retailer's approach to advertising and promotional programmes
- The retailer's approach to the design of the store as well as to visual merchandising
- The choice of location preferred by the retailer for the above, and
- The size of the store

Notes

*Caution* Deciding on a retail format is the most essential component of a retail strategy. While some of the most popular retailing formats adopted in organized retailing the world over are:

- Convenience stores
- Specialty stores
- Supermarkets
- Hyper markets
- Shopping malls

Time has changed radically since the house wife slipped her shopping bag over her arm and set out her daily food supply. The origins of retails are as old as traditional itself. Barter was the oldest form of trade. For centuries, most merchandise was sold in market places or by peddlers medieval markets were dependent on local sources for supplies of perishable foods because journeys were for too slow to allow for long distance transportation. However, customers did travel considerable distances for specialty items. The peddler, who provided people with the basic goods and necessities that they could not be self sufficient in, followed one of the earliest forms of retails trade. Even in prehistoric times, the peddler traveled long distances to bring products to locations, which were in short supply. They could be termed as the early entrepreneur and who saw the opportunity in serving the needs of the consumers at a profit. In most parts of the world, a flea market-typically a place where vendors come to sell their goods-could be the earliest forms of retail congregations.

### 3.1.1 Variety and Assortment

*Variety* represents the number of merchandise categories a retailer offers. Variety is often referred to as the breadth of merchandise carried by a retailer.

*Assortment* is the number of different items in a merchandise category. It referred to as the depth of merchandise.

Each different item of merchandise is called an SKU (stock keeping unit). Warehouse club stores, discount stores, and toy stores all sell toys. However, warehouse clubs and discount stores sell many other categories of merchandise in addition to toys. Stores specializing in toys stock more types of toys.

### 3.1.2 Other Major Formats of Retailing

Major Formats of In-Store Retailing have been listed in Table given below:

**Table 3.1: Major Formats of In-Store Retailing**

| Format | Description | The Value Proposition |
|---|---|---|
| Branded Stores | Exclusive showrooms either owned or franchised out by a manufacturer. | Complete range available for a given brand, Certified product quality. |
| Specialty Stores | Focus on a specific consumer need; carry most of the brands available. | Greater choice to the consumer, comparison between brands possible |

*Contd...*

Notes

| | | |
|---|---|---|
| Department Stores | Large stores having a wide variety of products, organized into different departments, such as clothing, house wares, furniture, appliances, toys, etc. | One stop shop catering to varied consumer needs. |
| Supermarkets | Extremely large self-services retail outlets. | One stop shop catering to varied consumer needs. |
| Discount Stores | Stores offering discounts on the retail price through selling high volumes and reaping the economies of scale. | Low prices. |
| Hyper-mart | Larger than a Supermarket, sometimes with a warehouse appearance, generally located in quieter parts of the city | Low prices, vast choice available including services as cafeterias. |
| Convenience Stores | Small self-service formats located in crowded urban areas. | Convenient location and extended operating hours. |
| Shopping Malls | An enclosure having different formats of in-store retailers, all under one roof. | Variety of shops available close to each other. |

***Source:*** India info line

### 3.1.3 Non-store Retailing

It is another type of retail marketing. Different types of non-store retailing are given below:

#### Direct Selling

Direct selling which started centuries ago with itinerant peddlers has burgeoned into a $9 billion industry, with over 600 companies selling door to door, office to office, or at home sales parties. A variant of direct selling is called multilevel marketing, whereby companies such as Amway recruit independent businesspeople who act as distributors for their products, who in turn recruit and sell to sub distributors, who eventually recruit others to sell their products, usually in customer homes.

#### Direct Marketing

Direct marketing has its roots in mail-order marketing but today includes reaching people in other ways than visiting their homes or offices, including telemarketing, television direct response marketing, and electronic shopping.

#### Automatic Vending

Automatic vending has been applied to a considerable variety of merchandise, including impulse goods with high convenience value (cigarettes, soft drinks, candy, newspaper, hot beverages) and other products (hosiery, cosmetics, food snacks, hot soups and food, paperbacks, record albums, film, T-shirts, insurance policies, and even fishing worms).

### 3.1.4 Organized Retail Formats in India

Each of the retail stars has identified and settled into a feasible and sustainable business model of its own.

- ***Shoppers´ Stop*** **-** Department store format.
- ***Westside*** **-** Emulated the Marks and Spencer model of 100 per cent private label, very good value for money merchandise for the entire family.

Notes

- Giant and Big Bazaar - Hypermarket/cash and carry store
- Food World and Nilgiris – Supermarket format
- Pantaloons and The Home Store - Specialty retailing
- Tanishq has very successfully pioneered a very high quality organized retail business in fine jewellery.

Structure of the retailing industry according to ownership patterns:

- An unaffiliated or independent retailer
- A chain retailer or corporate retail chain
- A franchise system
- A Leased Department (LD)
- Vertical Marketing System (VMS)
- Consumer Co-operatives

A new entrant in the retail environment is the 'discounter' format. It is also is known as cash and-carry or hypermarket. These formats usually work on bulk buying and bulk selling. Shopping experience in terms of ambience or the service is not the mainstay here. RPG group has set up the first 'discounter' in Hyderabad called the Giant. Now Pantaloon is following suit.

Two categories of customers visit these retail outlets:

1. The small retailer. For example, a customer of Giant could be a dhabawala who needs to buy edible oil in bulk.
2. The regular consumer who spends on big volumes (large pack sizes) because of a price advantage per unit.

Retailing in India is still evolving and the sector is witnessing a series of experiments across the country with new formats being tested out; the old ones tweaked around or just discarded. Some of these are listed in Table below:

**Table 3.2: Current vs. New Retailing formats**

| Retailer | Current Format | New Formats |
|---|---|---|
| Shoppers' Stop | Department Store | Quasi-mall |
| Ebony | Department Store | Quasi-mall, smaller outlets, adding food retail |
| Crossword | Large bookstore | Corner shops |
| Pyramid | Department Store | Quasi-mall, food retail |
| Pantaloon | Own brand store | Hypermarket |
| Subhishka | Supermarket | Considering moving to self service |
| Vitan | Supermarket | Suburban discount store |
| Foodworld | Food supermarket | Hypermarket, Foodworld express |
| Glob us | Department Store | Small fashion stores |
| Bombay Bazaar | Super market | Aggregation of Kiranas |
| Efoodmart | Food super market | Aggregation of Kiranas |
| Metro | Departmental store | Cash and carry |
| S Kumar's | Departmental store | Discount store |

*Source:* India info line

Notes

Retailers are also trying out smaller versions of their stores in an attempt to reach a maximum number of consumers. Crossword bookstores are experimenting with Crossword Corner, to increase reach and business from their stores. FoodWorld is experimenting with a format of one-fourth the normal size called FoodWorld Express.

### 3.1.5 Social Development and their Impact

The development of trading has been intimately associated social development over the ages. The development of railroads and telegraphs largely affected the growth of retail trade. Orders could be placed largely and confirmed by telegraph and the goods arrived by train. The wholesale business actually developed with advent of the traveling salesman. The success of wholesale business led to the emergence of the departmental store.

*Did u know?* In 1852, Bon Marche, the first departmental store, was setup in Paris. Bon Marche revolutionized retail at that time by relying on volume rather high mark-ups, to make money. The store also offered customers a money back guarantee on purchases. By the year 1897, the store sold more than $30 million worth of goods per year. The success of Bon Marche led to other department stores coming up across Europe and America, which continued to grow and flourish. Until World War-II Theories believes that the department store was a format that evolved simultaneously in Paris and Philadelphia in the 1860s. One of the first department stores, which opened in United States, was Stewart's in New York, which was followed by Macy's after the civil war.

The world witnessed a new form of retail when Montgomery ward launched the world's first mail order catalogue. Most rural dwellers encountered mass merchandising in the form of mail-order categories. The success of mail order business led to the emergence of chain stores.

### 3.1.6 Industrial Revolution

The industrial revolution necessitated changes on the retail front. The increase in urbanization meant that consumers now clustered in smaller geographic areas. This led to the emergence of shops, to serve the needs of the locals. The middle-income consumer's increased and mass transportation became a way of life.

The industrial revolution saw the retailers' evolving new methods of operation. The importance of food for the working class customers and the difficulties faced by them in procuring the food products led to the emergence of cooperative societies in the United Kingdom. By the year 1900, these societies had achieved 6-7% of the retail sales in the country.

### 3.1.7 Emergence of Self-service

In the early part of the 20th century, the American housewife, while shopping for her family's dinner bought meat at one store, glossaries at another, and fruits and vegetables at still another. It was back then that chain stores which existed such as the great Atlantic and Pacific Tea Company (now known as the A & P chain of stores) started introducing new methods of food selling. Because they did large volume of business, these chain stores could stock larger quantities of a greater variety of products and afford to sell them at lower prices. Soon these chain stores too began to sell meat, fruits, vegetables and dairy products; all products under one roof and housewives liked this idea of one stop shopping.

Notes

### 3.1.8 Popular Store Based Retail Formats

Even though stores are increasingly under treat from more recent retail format developments, they are still responsible for the major part of the retail trade, and so the different types of stores will be discussed before other types or retail format.

#### Department Stores

Department stores are the oldest form of large store. A department store is a multi-level store (at one time six or seven stories were common, but today there tend to be two or three levels) which is split up into clearly defined areas or departments according to product category. Any department stores offer width and depth in the product range so that almost every shopping need can be met, but other department stores concentrate on fewer categories and aim to offer a great choice within those categories.

*Example:* Pyramid Retail, Pantaloons Retail and Shoppers Stop, they all started off as department stores.

Variety stores are so named because they offer a large variety of goods under one roof, including both food and non-food items. This format combines the product and brand choice of the department store with the low price orientation of the variety store, with service level and store environment lying somewhere in between.

#### Specialist Stores

Although some department stores might be considered specialist stores because of the restricted product range (for example Harvey Nichols) or the customer market that they target (for example Harrods), most specialist stores are smaller, in line with the size of the product range offered. The majority of stores found in shopping centres or central retail areas are specialist stores due to the distinguishing feature of one product area dominating the retail offer.

Specialist retailers are not restricted to the selling of products; many speciality outlets offer service products to consumers.

*Example:* Fast-food outlets, cafes and restaurants, banks and building societies, repair centres and try cleaners, hair salons, nail bars and beauty salons.

#### Category Killers

The term category killer, which originated in the USA, describes the large specialist retailer that is typically found in an out-of town or edge-of-town retail park or site. The product range is geared to a restricted merchandise area, but the large size of store allows a very extensive selection within that classification.

*Example:* Crossword, Comet, PC World, Toys R Us, IKEA, B&Q, Petsmart and Staples are all examples of this type of retailer.

The stores are based on a one-level format and the economies of scale and inexpensive locations allow a value driven price offer. Many of the stores offer goods that satisfy complex needs (for example a computer or a carpet), and therefore specialist help is usually available, but the service orientation is relatively low key allow in the opportunity to browse.

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*Caselet*

## Case: Toys R Us

Toys "R" Us, is a toy store chain based in the United States. The chain also has locations in Europe, Asia, Oceania, Africa, and Canada. The company currently operates 840 stores in the United States and 716stores in 34 other countries, with some of them under franchises or licenses. The flagship store in New York City's Times Square is the largest toy store in the world. It is the largest toy-centered retailer and the second largest overall toy retailer in the United States. Toys R Us can be termed as a Category killer. Category killer is a term used in marketing and strategic management to describe a product, service, brand, or company that has such a distinct sustainable competitive advantage that competing firms find it almost impossible to operate profitably in that industry. The existence of a category killer eliminates almost all market entities, whether real or virtual. Many existing firms leave the industry, thereby increasing the industry's concentration ratio. Toys R Us can be termed as a category killer because it is focused on one or few categories of merchandise and offers a wide selection of merchandise in these categories at relatively low prices.

### Convenience Stores (C-stores)

As yet, no official definition of a convenience store has been established although the following criteria generally apply to this format: self service, 1,000-3,000 sq ft selling area, parking facilities, open 7 days a week for long hours, a wide range of goods, but limited brand choice, including groceries, CTN (Confectionary, Tobacco and Newspaper) products, toiletries, OTC (Over-the-counter) medicines, alcohol and stationery. Other products and services that might be offered are take-away foods, toys, video hire, film processing and petrol (Nielsen, 2001).

### Supermarkets, Superstores and Hypermarkets

Supermarkets, superstores and hypermarkets can be considered in the same 'family' of retail format, in that the stores are self-service, usually on one level and laid out in a functional grid pattern of aisles and shelving. Supermarkets are the smaller variant, usually located in a town centre or neighbourhood location, with a product range that concentrates on food and household consumables.

*Caution* Superstores are 25,000 square feet (approximately 8,000 square meters) or more, are usually in an edge or out-of-town location, and they have an extended product range featuring product categories such as clothing, home furnishing and home entertainment goods (for example ASDA and Casino). A hypermarket is a huge retail outlet (over 50,000 square feet) in an out-of-town location, which offers an extensive range of products with the proportion of non-food items being greater than a superstore (a hypermarket is typically 60 per cent non-food).

*Example:* Carrefour sells car tyres and bicycles in their hypermarkets in France and Spain.

They all provide faster product purchasing as customers are required to do self service.

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### Warehouse Clubs

A warehouse club is a retail outlet that stocks a limited range of grocery and household products, some home-orientated goods and some clothing products (usually 3,000-4,000 product lines). The distinguishing feature of a warehouse club is that you have to become a member to shop there. Prices are low, and the store environment is extremely basic. Most warehouse clubs operate in a similar way to a cash and carry outlet in that the goods have to purchased in larger quantities, but some (for example Costco), allow customers to purchase smaller quantities of some lines.

### Discount Stores

Defining a discount store is not an easy task, because the key characteristic is the price of the merchandise, which is subject to individual customer perceptions. Discount stores are sometimes run on the basis of a product range geared by opportunistic buys by the retailer, or they have planned ranges, sold with an unusually low profit margin.

*Example:* Emerging strong players who have adopted this type of format are Reliance, West Side, Trent and Raymond's in the clothing sector.

***Factory Outlets:*** Factory outlet retailers offer customers a range of seconds-quality and/or previous season's.

***Charity Shops:*** Charity shops are usually run on the basis of selling stock that has been donated, although some, for example Oxfam, also have a range of specifically sourced products.

Non-store Based Formats include electronic retailers, catalogue and mail order sales, direct selling, vending machine retailing and television home shopping. These will be discussed one by one in subsequent sections.

*Task* Give at least 5 examples of each type of retail format discussed above. Try to include as many Indian retailers as possible.

## 3.1.9 Popular Non-Store Based Retail Formats

Formats under non-store based retailing are:

### Electronic Retailers

As a sophisticated and interactive medium, the internet accessed by personal computer is showing every sign of being accepted as a mainstream shopping mode by an increasingly computer-literate society. Using the internet to access information has been accepted as part of everyday life for many sectors of society, and in the process of shopping it has become very useful to customers as a way of accumulating information about retailers' product and service offerings in a relatively fast and convenient manner. As a way of accessing specialist retailers that might be geographically remote from consumers, the internet provides a channel of discovery for the consumer, and a way of providing home shopping services for a wider target market for the retailer. The internet is also an efficient home-shopping device, enabling time-poor or less mobile consumers to order and take delivery of routinely purchased items such as basic groceries and household items.

Irrespective of the way we access the e-retailer, whether it is via the PC, the mobile phone or the hand-held personal organizer, consumers increasingly expect retail organizations to be able to

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offer flexibility in terms of information gathering (to supplement pre-sale shopping), purchase transaction, and taking delivery of the product or service (post-sale activity). By using a number of different retail formats, retail businesses are better able to allow consumers this flexibility. Most large retailers in the UK now fall into the category of the 'multi-channel' retailer, which is a term used to describe the strategy of using more than one 'route' to consumer markets. Typically, the multi-channel retailer runs stores and has a transactional website (the so called 'clicks-and-mortar', or 'clicks-and-bricks' approach), but other combinations might be stores/catalogue, stores/catalogue/website, stores/website/direct mail. Offering alternative ways to shop may encourage customers to remain loyal to a favoured retail brand as lifestyles change, but it can also present retailers with new operational and ·competitive challenges.

### Catalogue and Mail Order Sales

Catalogue marketing helps companies reduce their cost per customer and increase their reach significantly. Catalogue retailing is a convenient way for customer to purchase products. Retailers too have an advantage in catalog marketing as they can operate from remote locations with minimum store operating expenses and need not spend heavy amounts on store décor. However, catalog marketing is suitable only for a limited range of products.

*Example:* Amazon.com, an e-tailer in the US, mails its broachers to customers before occasions of festivals like Christmas and Father's day. The catalog contain information related to products such as books, electronics, toys and games, apparels and accessories, home and gardening products and software. A toll-free number provided for customers to place orders.

### Direct Selling

Direct selling is a dynamic, vibrant, rapidly expanding channel of distribution for the marketing of products and services directly to consumers. Direct selling is the marketing of products or services to consumers through sales tactics including presentations, demonstrations, and phone calls. It is sometimes also considered to be a sale that does not utilize a "middle man" such as a retail outlets, distributors or brokers. This is needed where the products value needs more explanation and cannot be purchased off the shelf.

At its best, direct selling can be an opportunity for individuals to find fulfillment, express their entrepreneurial talents and gain financial independence.

Direct selling involves people and is a part of direct marketing which additionally involves the use of media, print which is handled by the business.

***Features:*** In direct marketing, marketers invite customers to respond to their marketing efforts through the telephone, email etc.

The effectiveness of direct marketing can be measured easily because direct feedback is available to marketers from customers.

In direct marketing, generally, a data base of customers is maintained. This helps marketers understand customers and serve them better, and eventually gives the marketer a competitive advantage.

Direct marketing evaluates the direct response patterns of customers, enables a company to formulate future marketing strategies for building customer loyalty and for profitable business growth.

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## Vending Machine Retailing

An automatic vending machine is formed of a commodity-selecting device for selecting a commodity to be purchased, a device for paying money required to purchase the commodity, a commodity-transfer device for transferring the selected commodity, and a main control section. The machine further includes one antenna section for communication by electric wave, a device for activating a non-contact IC card, a device for activating a mode showing the balance of the card, and a balance display in order to allow commodities to be purchased by using the non-contact IC card. Thus, in the automatic vending machine, a user can select the commodity and then settle the account simply by holding the non-contact IC card to one section of the automatic vending machine just once.

*Example:* Automated vending machines include:

- ***Potato Chip Vend Machines:*** Potato Chips Vending Machines With Different Flavored Sauces.
- ***Automated Rigging:*** Design, manufacture, installation of automated rigging equipment
- ***AGVs by FMC Technologies:*** Automatic Guided Vehicle (AGV) Systems featuring laser guidance.
- ***Hospitality Equipment:*** Spanish Exporting Association for Hospitality and Catering Equipment.
- ***Coffee Vending Machine:*** Coffee and snack vending machine not for rent and not used machine.
- ***Snack Dispenser:*** Nuts, Snack and Topping Dispensers Portion Control and Easy to Clean.
- ***Laser video 24h:*** DVD vending machine, video dispense automatic DVD rental, DVD vending.
- ***Kiosks:*** Kiosks are highly beneficial for retail outlets, especially groceries, banks (ATM), etc. once a customer fills in the details regarding the products he needs, they are delivered to him either immediately (in an ATM) or at his address, where the payment for the goods is made. This facility reduces the dependence on e-commerce and the use of credit cards, especially in countries like India, where the usage of credit cards is quite low. Automated vending machines is beneficial for customers as it allows them to shop conveniently as well as for retailers by facilitating holding of minimum or negligible stock.

The use of kiosks is beneficial for customers because they can be setup at palaces convenient for them, and enable them to obtain relevant information about the company without visiting the company. They can be set up in even a very small area. On an average, each kiosk requires around four square feet space. These can be operated twenty-four hours a day, seven days a week, without any super vision.

## Television Home Shopping

*Did u know?* The earliest form of shopping via the television was by means of information provider networks such as Ceefax in the UK.

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This method of retailing suffers from the same product-presentation drawback as telesales, but has been useful for services retailing (travel, entertainment, and insurance) when the product is intangible, information-based and the price offer is variable. More recent TV shopping developments have used the three-dimensional visual representation abilities of a screen image to provide dynamism to print-based retail offerings, first in the form of videos, and soon after in the form of a shopping channel, QVC, which was launched in 1983.

One of the difficulties of programmed retail offerings is the need to provide the consumer with the opportunity to skip through unwanted product categories, and so interactive screen-based retailing is the most likely retailing format to offer the potential customer everything that is necessary to emulate the 'usual shopping experience'. The conversion to digital TV and broadband internet services will greatly facilitate the adoption of interactive TV shopping.

### Self Assessment

Fill in the blanks:

1. ..... stores are the oldest form of large store.
2. Toys R Us can be put under the category of ..... stores.
3. A ..... is a huge retail outlet with area of over 50,000 square feet.
4. ..... can be seen as a commodity-selecting device for selecting a commodity to be purchased.

## 3.2 Theories of Retail Development

As the retailers grow stronger, they have more bargaining power and they achieve greater economy of scale. This makes them offer competitive pricing and puts pressure on marketers to offer improved products and services. This contributes towards developing a strong market network. The two powerful theories are cyclical theories and wheel of retailing theory. Retail institutions go through different cycles over a period of time. In evolutionary theories retail organizations follow similar patterns like biological evolutions.

Historically, many researchers have endeavored to study retail evolution in the United States and in Europe, based on an assumption that a pattern would exist in all retail evolution and that the pattern would provide insight into past and future changes in retail. The basic premise of these theories is that a force (e.g., environment, conflict) causes a retail institution type to change and evolve into a new institution type or a new institution type will emerge as a result of need, conflict or other forces.

### 3.2.1 Wheel of Retailing Theory

According to a better-known theory of retailing – wheel of retailing proposed by Malcomb McNair (Figure 3.1), new retailers often enter the marketplace with low prices, margins, and status. The low prices are usually the result of some innovative cost-cutting procedures and soon attract competitors. With the passage of time, these businesses strive to broaden their customer base and increase sales. Their operations and facilities increase and become more expensive. They may move to better up-market locations, start carrying higher-quality products, or add services and ultimately emerge as a high cost-price- service retailer. By this time newer competitors as low-price, low-margin, low-status emerge and these competitors to follow the same evolutionary process. The wheel keeps on turning and department stores, supermarkets, and mass merchandisers went through this cycle.

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**Figure 3.1: The Wheel of Retailing**

### 3.2.2 Accordion Theory

The accordion theory of retailing suggests that retailers initially enter a market as a general retailer and then with experience they focus down on particular groups. Over time they begin to diversify their offer in order to grow, but again would revert to specialization. Thus retail accordion is based on cyclical functioning in variety and adjustment. Hollander (1966) proposed the Retail Accordion theory, which explained retail evolution as a cyclical trend in terms of the number of merchandise categories (i.e., product assortment).

In this theory, at the beginning of operation, a retail institution carries a broad assortment of merchandise (i.e., various types of products or product classifications) but does not carry a deep assortment (i.e., various styles within one product classification). At this early stage, the retail institution is a general store. As time passes, the retail institution becomes specialized by carrying a limited line of merchandise with a deep assortment. At this point, the retail institution is a specialty store. At some point, every retail institution returns to the inventory profile of the old operation with a broad assortment of many lines of merchandise. The number of lines (i.e., broad vs. narrow) and the depth of inventory (i.e., shallow vs. deep) expand and contract over time. Hollander used general stores, drug stores, supermarkets, department stores, and discount stores in the United States as samples of analysis for the theory. He explained historical changes of a merchandise assortment in these retail institution types, and noted that each evolved by following the steps of the Retail Accordion theory. Stern and El-Ansary (1977) proposed a graphic model of Retail Accordion theory with breadth of merchandise line assortment changing across time. In the model, general stores, department stores and shopping centers, as examples of institution types with broad merchandise lines, have alternated over time with specialty stores and boutiques, which represent institution types with narrow merchandise lines.

***Measurements:*** For the Retail Accordion theory, none of the authors clearly presented how they measured product assortment over time. They used historical conceptual studies to identify general changes of product assortment in each retail institution type.

### 3.2.3 Environmental Theory

The original idea of the Environmental theory came from Darwin's Natural Selection theory. The Natural Selection theory proposes that a species can survive only when it best adapts to environmental changes (Brown). Gist replaced the "natural species" in the Natural Selection theory with a "retail institution", and he proposed that only a retail institution, which is most effectively adapted to environmental changes, could survive (i.e., Adjustment theory of evolution). The Environmental theory explains how variables in the environment affect retail evolution;

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however, it does not explain patterns of change or changes over extended time, as do the two previous primary theories.

The basic notion of the natural selection theory is that retailers that successfully adapt to changing lifestyles of the consumers and other environments will survive the longest. According to this theory, formats best able to adapt are most likely to survive e.g., current supermarket trends and department store trends are attempts to adapt and survive; stores that originally resisted the Internet channel, are now benefiting from it. The organizations must adapt in response to environmental changes. They should evolve in response to customer needs e.g. longer store hours, ability to shop online and relevant technology such as logistics efficiencies and competition in which the firm has to maintain competitiveness in the face of new and more sophisticated competitors.

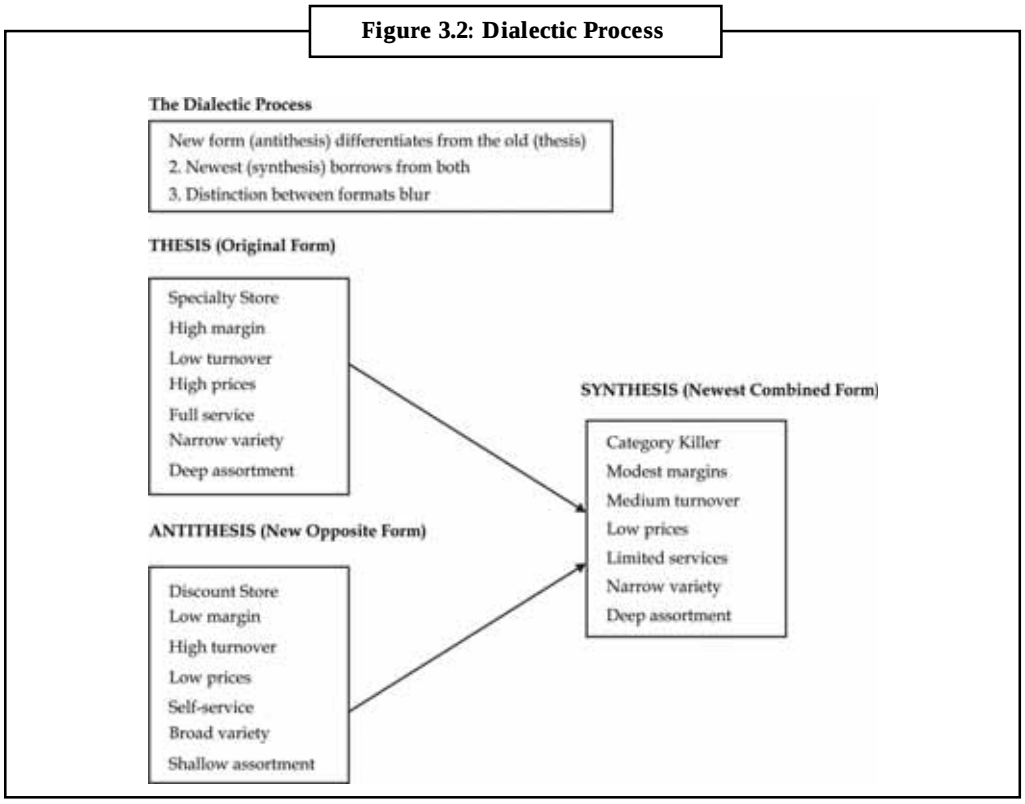
Gist (1968) predicted that retail evolution could occur only when environmental variables positively affected retail institutions. Having an environment favorable to a retail institution highly enhanced the retail institution's ability to adapt to the environment. Brown (1987), Oren (1989), and Stevens (1975) mentioned that a retailer's ability for adaptation to the environment was highly dependent on environmental conditions, especially those of technology and economy, and this ability would significantly affect the success of the institution types' retail evolution.

Through change in reaction to the environment, a retail institution could eventually survive.

### 3.2.4 Dialectic Process

Many researchers have proposed some form of a Conflict theory to explain retail evolution (e.g., Berens, 1980; Bliss, 1967; Cauwe, 1979; Gist, 1968; Oxenfeldt, 1960; Schumpeter, 1947; Thomas, 1970). Research in this area, as with the cyclical theories, has been done primarily in Europe and the United States based on observations of retail operations. Among these researchers, Gist (1968) proposed the Dialectic theory, a well-known Conflict theory that has been the basis for the common concepts of many conflict theories. The Dialectic theory is based on Karl Marx's Theory of Evolution.

**Figure 3.2: Dialectic Process**



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According to this theory, retailing evolves through synthesis of two opposing store types into a superior form. This theory suggests how the original forms of retailers change into new forms.

### Self Assessment

State whether the following statements are true or false:

5. According to Wheel of Retailing, new retailers often enter the marketplace with high prices, margins, and status.
6. The accordion theory of retailing suggests that over time retailers begin to diversify their offer in order to grow, but again would revert to specialisation.
7. The idea of Environmental theory of retail is derived from the Natural Selection Theory.
8. According to the Dialectic process, retailing evolves through synthesis of two opposing store types into a superior form.

## 3.3 Concept of Lifecycle in Retail

Attributes and strategies change as institutions mature. The retail life cycle is the theory about the changes through time of the retiling outlets. This window of opportunity is useful for executives who plan their market-specific strategies; the four stages or the lifecycle of this industry is as follows:

1. Introduction
2. Growth
3. Maturity
4. Decline

### 3.3.1 Introduction

An introduction is the opening phase of a market and is one that is just entering the GRDI, Global Retail Development Index This index is based on more than 25 macro-economic and retail-specific variables. For instance, the country risk includes parameters like political risk, economic performance, debt indicators, credit ratings, access bank finance and business risk. The market attractiveness covers retail sales per capita, urban population, laws and regulations and business efficiency.

In this stage all, which are outside the top 30 markets, falls in this stage. At this stage, retailers should monitor and performing high-level assessments, they should plan for their entry strategies.

*Example:* India in the late 1990's is a good example in the opening stage, while in 2006, Kazakhstan is the country in introduction stage.

***Strategy suggested:*** A rapid penetration strategy is suggested at this stage i.e., low price and high promotion.

### 3.3.2 Growth

In growth stage, the market is developing quickly and also ready for modern retailing. Countries, which are in Peaking stage, are India, Ukraine and Vietnam. Retailers entering this stage have

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the best chance for long-term success. Retailers at this stage should enter through local representations, sourcing offices and new stores. Wal-Mart success in china in the late 1990's and early 2000's gives us the importance of committing to a promising high-growth market at right time.

***Strategy suggested:*** The strategy of adopting quality and styled products with new models and shift of advertising from product awareness to product preference.

*Example:* The big bazaar advt. says surf Excel is cheaper than the market price. The idea behind adopting strategy is to strengthen against competitors.

### 3.3.3 Maturity

In this stage the market is still big and growing, but the space for new entrants will become tighter and retailers should act quickly at this stage because retailers at this stage have limited time to explore, and also their margin for error is thin. In general, they should act according to the established rules and should be open to face the competition from international retailers. This stage generally lasts longer than the previous two stages.

***Strategy suggested:*** Enter new market segments that are either enter new geographic areas e.g. Vishal mega mart has opened stores in smaller cities tier II and III cities

### 3.3.4 Decline

The window of opportunity is closing fast and modern retail share is reaching 40 to 60 percent. Though the opportunity is closing the existing retailers can enter with new formats such as discount models or non-food formats such as consumer electronics and apparel.

Window of opportunity ends for about 5 to 10 years before a market enters the closing phase and reaches saturation level.

*Example:* India was in the opening stage in 1995 and entered peaking stage in the year 2003 and reached number 1 rank in 2005.

### Self Assessment

Fill in the blanks:

9. A rapid penetration strategy should be followed by retailers at the ..... stage.
10. ..... stage usually lasts longer than the other stages of lifecycle.

## 3.4 Business Models in Retail

Business models in retail is basically how entrepreneurs start retail business and what are these models of retail business followed by any entrepreneur.

Some business models in retail are:

- Independent retail model
- Existing Retail business model
- Franchise
- Network marketing

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### Independent Retail Model

An independent retailer is one who builds his/her business from the ground up. From the business planning stage to opening day, the independent retail owner does it all. He/she may hire consultants, staff and others to assist in the business endeavor. The opportunities are endless.

***Advantages:*** There are no restrictions on who, how or where an entrepreneur should set up his/her business. The freedom to do what one wants to do is the biggest advantage in this form of business. It can be extremely fulfilling.

***Disadvantages:*** Because of the ease and flexibility of getting started, there can be a lot of competition in a particular area for a certain type of customer. Every business decision rests on the owner(s). There is no branding, no preset guidelines and a great deal of risk in this business model.

### Existing Retail Business Model

Someone who inherits or buys an existing business is taking ownership and responsibility of someone else's hard work. The foundation has already been laid.

***Advantages:*** The biggest advantage to buying an existing business or taking ownership of an already-established retail store is time. The time to build a customer base, the time to establish branding, and the time it takes to establish credit are generally all past which means most of the hard part is behind the new owner.

***Disadvantages:*** The existing business may have a negative image or reputation that will take a lot of time to undo. Loyal customers may not like the change of ownership. Previous owners have caused problems by opening a competing business.

### Franchise Retail Business Model

Retailers may find the business model of a licensed dealership as a mix of franchise and independent retailer. The licensee has the right (sometimes this is exclusive) to sell a brand of products. Unlike a franchise, the dealer can sell a variety of brands and there generally no fees to the licensor. Dealerships may or may not be identified as an authorized seller or by the company's trademark.

***Advantages:*** There may be some branding or product name recognition by the customer. The dealership relation is much more flexible than that of a franchise. This may be a good business model for part-time retailers or those just starting in retail.

***Disadvantage:*** Because of the ease and flexibility of getting started, there can be a lot of competition in a particular area for a certain type of customer. Like the independent retailer, every business decision rests on the owner(s). There is also great deal of risk in this business model.

### Network Marketing Retail Business Model

Multi-level Marketing (MLM) or network marketing is a business model where the selling of products depends on the people in the network. Not only is a product being sold, but other salespeople are being recruited to sell that same product or product line. It's probably not a type of business one would initially consider when discussing retail businesses, but Amway used this model quite successfully for many years.

***Advantages:*** Generally very little startup funding is needed to operate this type of business. Network marketing provides freedom from conventional retailing businesses and offers a

greater interaction with all types of people. For those willing to invest the time, huge profits can be made.

***Disadvantage:*** Too many unscrupulous multi-level marketing schemes exist. Some systems require their dealers to be more interested in recruiting new members than in selling the products to consumers. It may be difficult to operate without a storefront.

*Task* Name some franchise retailers and find out about their modus operandi.

### Self Assessment

Fill in the blanks:

11. A ..... can sell a variety of brands and there generally no fees to the licensor.
12. In ..... , not only is a product being sold, but other salespeople are being recruited to sell that same product or product line.
13. A retailer who builds his/her business from the ground up is referred to as ..... retailer.

## 3.5 Traditional Business Models in Indian Retail

The various traditional format of retailing in India are:

- Traditional Mom and Pop Stores
- Kiosks
- Street markets

### Mom and Pop Stores

These are generally family-owned businesses catering to small sections of society. They are small, individually run and handled retail outlets.

### Kiosks

A kiosk is a booth with an open window on one side. Broadly, carts and kiosks fall under the branch of retailing called 'Specialty Retail' which refers to businesses targeting a niche audience - on the basis of geography, gender, tastes and the range of products sold.

### Street Markets

A Street market is an outdoor market such as traditionally held in a market square in a market town, and are often held only on particular days of the week. Very similar markets, or bazaars can also be found in large enclosed spaces, instead of on a street.

Street Shops of India are predominantly unorganized. Indian street shops are varied and scattered. Street Shops of India generally occurs in small tufts and sells products that are very relevant to economic needs of that particular area.

*Example:* The Street Shops in villages offer groceries and daily use commodities that are generally unbranded and cheaper in price and quality. Street Shops in towns and cities are more organized and sells daily use commodities along with luxury items. Generally, these Street

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Shops of India sells branded products from Indian and foreign manufacturers respectively. Although, the consumerism is showing a rising trend in India, but the majority of the semi-rural and rural market is untapped. Huge opportunity exists in organized retailing in India.

Street Shops of India and its stupendous growth is credited to India Economic System reform earnest in July 1991. The important parameters of Indian Economic System showed prominent increase. The economic liberalization of Indian economy resulted from enactment of liberal financial and economic policy. This in fact, has removed the insulation from the Indian market. Foreign Direct Investments started to flow into the Indian domestic markets. The Indian retail market is at its nascent stage. The Central Government has ultimately realized the need to remove the insulation out of the Indian retail sector. Skeptics opine that opening up the Indian retail industry would jeopardize the way of income for the poor small retailers. In fact, the actual story is quite heartening for the small time retailer and its vendors.

*Case Study*

## Case: Prateek Apparels - F-Square: An Introduction

F-Square is value retail outlet from Bangalore based Prateek Apparels. It is a new lifestyle experience for men. From clothing to accessories, it is the first of its kind store in India which is positioned as the ultimate fashion destination for men. It has emerged as the country's largest fashion value chain that targets youth and offers fashionable clothing ranging from ₹ 100 to ₹ 799. This makes the price affordable to all the sectors of the society. F-Square sells the company's private labels without any big brands in its product portfolio. It is famously called as local neighborhood family store. Unlike big box retail formats which goes up to 70000 sq ft F-Square is a smaller format ranging 800-1000 sq ft. F-Square is present only in Karnataka and has made its presence feel among the masses with its constant discounts and special offers. It's interesting to note that one of the top Kannada cinema actors Puneet Kumar is the brand ambassador for the F-Square brands.

F-Square is the concept from Prateek Apparels which is one of India's largest design companies with over 15 years of vast experience in delivering quality solutions for domestic branded retail industry. Prateek Apparels is a popular name in the retail fashion industry as it is one of the earliest organized players to offer integrated design, sourcing and manufacturing services to domestic branded apparel industry. Prateek Apparels with its 5 state of art manufacturing facilities employees over 3000 employees. The manufacturing facility has an incredible capacity to produce over 6 million pieces per annum. Prateek Apparels known for its exceptional quality and high manufacturing capacity is the preferred vendor partner for most of the top national and international brands in the country in addition to large format national chain retailers, discount stores and hypermarkets.

Prateek Apparels Pvt. Ltd. Retail Division established in 2007 exclusively concentrates on the value retail segment of the Indian market. Prateek Apparels has an admirable name in the retail segment and currently operates 7 Coupon stores at the following locations Bangalore, Chattisgarh, Hyderabad, Calicut, and Faridabad and will be adding 2 more during this fiscal. A full-fledged apparel manufacturing unit, begun in 1995, Prateek Apparels now boasts of clientele of leading brands including Westside, John Players, Levi's, Dockers, Lee, Wrangler, Van Heusen, Cottons by Century among others. From concept to design Prateek Apparels provides value-adds at every stage. Taking on a comprehensive approach, the company's services include brand research, fashion forecast, brand communication, design and product development, merchandising client interface,

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sourcing, production, planning and control, manufacturing and quality assurance. Coupon stores were started with an exclusive idea of providing a wholesome shopping experience to the entire family. Coupon stores are the large format stores (10000-45000 sq ft) capable of housing over 200 national and international brands offering a discount of 10-60% throughout the year. Coupon is hugely popular for its wide assortment & variety of brands, departments, categories, and products altogether providing a complete family shopping experience. With a view to further strengthen and to expand the horizons in the value retail market, Prateek Apparels has launched the concept of small format value fashion stores in 2009 under the name FSQUARE. While Coupon features well known brands, F Square will only sell the company's private labels and will be positioned as a local neighborhood family store.

***F-Square Brands***

There are 4 brands which are available in the f-square outlets. The names of brands are coined in such a way that it attracts especially the youths. The brands are:

1. ***Locomotive:*** My style

   Locomotive fashion for the young gun includes fashion polos, round neck fashion T's, stylized shirts, denims and jackets.

2. ***Highlander:*** Easy confidence

   Highlander includes stylish business casuals: chinos, polos, washed shirts and trousers. These are the best chill pills for today's man.

3. ***Mark Taylor:*** Buttoned up

   Mark Taylor is a range of formals for the man who needs to make the right impression.

4. ***Black Coffee:*** Big business with style

   Premium formal trousers and shirts for man in command.

***F-Square Operations***

F-square operates under the value retail format. Value retail is the recent buzzword with many established and new players adopting the model. Value retail format is a type of retail format where customers can buy products at lower prices with better quality. The main aim of F-square is to come out with combo price offers to create complete wardrobe solutions and offer unbeatable value and create the concept of pocket money shopping. The F-square customer is a Mass Indian male, 18 to 30 years seeking fashion at value. The customer seeks attractive price point and F-square merchandise is affordably priced in the range of ₹ 99-₹ 699 with almost 80% of the merchandise under ₹ 499. F-square has its own outlets and also follows franchisee model. It is present only in Karnataka and has not penetrated into other markets still. There is terrific competition in this segment and the stores competing with F-square are Megamart from Aravind retail, Brand factory from Pantaloons retail India Ltd, Big bazaar, Star bazaar and Trent from the Tata group and other regional players. Many customers have started preferring value retails compared to other retail formats which is the reason why the competition is increasing day by day. The company takes lots of measures to increase the visibility of the stores. The choice of location for F-square is linked to the core objectives of brand building by reach and market potential. Hence the stores are generally located in prime localities like near bustling street markets and shopping streets, value for money environments, hypermarkets, high streets & swank malls where there are large footfalls. Currently there are more than 100 stores in Karnataka in all prime locations.

*Contd...*

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Visual merchandising plays a very important role in retailing and this is carried out by F-square in a very well planned manner. The store also comes out with lots of special offers and discounts regularly to attract more customers. Regional and National newspapers serves as an important media vehicle to communicate the offers to the customers along with local celebrity endorsement. The store also comes out with sudden offers with attaching a time period to it. For example it comes out with 50% off for 48 hours, Buy 1 and get 2 free in 24 hours etc. The store gets its inventories directly from its parent company- Prateek group. The store also provides training to the employees joining them to better serve the customers. The company is in the rapid expansion mode with a plan to open 100 F-square stores in this fiscal. It's planning to double its turnover to touch ₹ 700 crore with 240 F-square stores by the end of year 2014.

***Question:*** Describe the business model of F-Square.

***Source:*** www.novonous.com

### Self Assessment

State whether the following statements are true or false:

14. Mom-and-Pop stores are small family owned and operated businesses.
15. Street Shops of India are predominantly organised.

## 3.6 Summary

- The store format of a retailer is determined by many factors including its look as well as the variety, the quality and the quantity that a store has on display. In this unit you learned how the format of retail industry changed.
- Retail formats identify the central elements defining a retailer's strategy. Thus, format strategy is often the key to an international retailer's ability to gain a strong competitive position in host countries.
- Three theories are commonly recognized as the primary retail evolution theories: Wheel of Retailing Theory, Accordion theory, Environmental theory and dialectic process.
- The basic premise of these theories is that a force (e.g., environment, conflict) causes a retail institution type to change and evolve into a new institution type or a new institution type will emerge as a result of need, conflict or other forces.
- Lifecycle of retail consists of four stages: introduction, growth, maturity and decline.
- Business models in retail is basically how entrepreneurs start retail business and what are these models of retail business followed by any entrepreneur.
- Organisations permanently keep changing the format of their business to attract the customer more and more, likewise the format of retail industry change or keep changing from traditional shop to mall culture in metros.

## 3.7 Keywords

***Accordion Theory:*** A theory of retail institutional change that suggests that retail institutions go from outlets with wide assortments to specialized narrow line store merchants and then back again to the more general wide assortment institution.

***Category Killer:*** A large retail chain store that is dominant in its product category.

Notes

***Convenience Stores:*** A store with extended opening hours and in a convenient location, stocking a limited range of household goods and groceries.

***Hypermarket:*** A very large commercial establishment that is a combination of a department store and a supermarket.

***Retail Format:*** Format of a retailer is the overall appearance and feels that it presents to customers, primarily its look and layout, the sort of range it stocks and the approach taken to pricing.

***Specialty Stores:*** A store that sells only one kind of merchandise.

***Supermarket:*** A large self-service store selling foods and household goods.

***Vending Machine:*** A machine that dispenses small articles such as food, drinks, or cigarettes when a coin, bill, or token is inserted.

## 3.8 Review Questions

1. Describe the evolution of different retail formats.
2. Why do you think the format of retail is so important?
3. Name and state the characteristics of popular store based formats.
4. Explain the rationale behind the launch and success of non-store based retailing.
5. Discuss the Wheel of Retailing theory with the help of a diagram.
6. Why would a new retail store carry a broad assortment of merchandise but does not carry a deep assortment?
7. How is the Environmental theory of retail similar to Darwin's Natural Selection theory?
8. "The retail life cycle is the theory about the changes through time of the retiling outlets." Keeping this in mind, discuss the lifecycle of a retail institution.
9. Contrast Independent Retail model and franchising.
10. Discuss the traditional business models of Indian retail.

### Answers: Self Assessment

| | | | |
|---|---|---|---|
| 1. | Department | 2. | Category killer |
| 3. | Hypermarket | 4. | Vending machine |
| 5. | False | 6. | True |
| 7. | True | 8. | True |
| 9. | Introduction | 10. | Maturity |
| 11. | Dealer | 12. | Network marketing |
| 13. | Independent | 14. | True |
| 15. | False | | |

## 3.9 Further Readings

*Books*

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**Notes**

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Notes

# Unit 4: Understanding the Retail Consumer

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4.2 Factors Influencing Retail Shopper

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## Objectives

After studying this unit, you should be able to:

- Assess the need for studying consumer behaviour
- Identify the factors that influence the retail shopper
- Discuss the consumer decision-making process

## Introduction

One of the very few aspects common to all of us is that we are all consumers and the reason for a business firm to come into being is the presence of consumers who have unfulfilled, or partially fulfilled needs and wants. Buyer behaviour is an extremely important and complex subject for any marketer. At the same time, it is important to appreciate that there is no unified, tested, and universally established theory on this subject. Buyer remains an enigma and her/his mind is viewed as a black box. Before businesses can develop marketing strategies, they must understand what factors influence buyer behaviour and how they make purchase decisions to satisfy their needs and wants. Understanding buyer behaviour and "knowing buyers" are not that simple. It is almost impossible to predict with one hundred per cent accuracy how buyers will behave in a certain situation. Buyers are moved by a complex set of deep and subtle emotions. Their behaviour results from deeply held values and attitudes, their perceptions of the world and their place in it, from common sense, impulse, or just plain whimsy.

Consumer behaviour can be defined as,

*"Consumer behaviour refers to the mental and emotional processes and the observable behaviour of consumers during searching, purchasing, and post consumption of a product or service."*

***—Satish K. Batra and S. H. H. Kazmi, 'Consumer Behaviour', Excel Books, 2004***

## 4.1 Need for Studying Consumer Behaviour

Retailers who are in touch with their customers and their needs and wants are more likely to find retail formulae that are relevant to consumers.

Notes

*Example:* In the late 1990s, the electrical retail group Dixons launched The Link, a new chain of stores that focused on personal communication products and services, in response to the growing market. Although there was a degree of overlap in this product category with the existing Dixons stores, the new stores allowed the retail group to respond positively to an opportunity presented by a change in consumer lifestyles.

A retailer's role in the arena of personal consumption is that of distributor and facilitator. A retailer provides a convenient point for a consumer to obtain goods and services, either by being in a location that is closer than that of the producer and by selling in quantities appropriate to the needs of the consumer, or by providing added value in the offer such as range assortment or additional services. In a developed society, retailers play a greater role than the distribution viewpoint would imply. They provide an information service, they provide an environment in which he products can be discovered, new fashions followed and lifestyle patterns endorsed. Retailers have the benefit of a direct interface with the final consumer, therefore they should have an advantage over producers when it comes to gathering information about customers in terms of who they are and how and what they buy. However, all too often retailers make too many assumptions about their customers and do not have a thorough and researched awareness of how their customers' needs, wants and preference can change over time.

Marketers need in-depth knowledge about the various dimensions which link retailing and consumer behaviour. There is research required to handle retail decisions in a competitive context.

*Example:* McDonald's found that a major chunk of its consumers decide to eat a few minutes before they make the purchase decisions and hence it is building small outlets in large supermarkets such as Wal-Mart and Home Depot. It is providing play areas to ensure a number of families visit its outlets with children. A few companies also operate through kiosks in airports, malls and high-traffic areas. Sunglass Hut is a brand which operates kiosks at various places which displays about 1,000 different models along with their prices. Consumers could place an order through these kiosks and the product is home-delivered.

### The Changing Consumer

It is claimed that modern societies are increasingly organized around consumption (Abercrombie, Hill and Turner, 1994) and so the trends in the pattern' consumption that emerge over time are very important for retailers to observe and understand. Consumer trends describe how the body of consumer changes over time and make predictions about how those people will consume in the future. The retailer can therefore build up a 'customer profile' that gives an indication of who might 'typically' use their outlet. A retail customer profile is affected by the macro (general) business environment; for example the macro-economic policies a government pursues in relation to personal taxation and interest rates affects the spending power of retail customers, and the extent to which we are familiar with technology will affect our propensity to use technologically based retail formats to undertake shopping activity.

A retailer's customer profile is also influenced by the microenvironment, the specific business arena in which the individual retailer operates.

*Example:* The entry of Amazon.com into the book retailing market gave traditional retailers like Waters tones and Ottakars new competition, not only in the form of a new company, but also a whole new way of shopping.

Notes

Subsequently, store-based retailers have put more effort into creating a pleasant store environment, conducive to browsing and sampling a book over a cup of coffee, something that internet retailers are unable to offer. Book retailers might therefore be able to group their customers according to the ways they like to shop for books, and address their needs accordingly. Some of the most radical changes in consumers in developed economies like Europe and the USA are those that emanate from the changes in society itself; the changing nature of a population's age profile, the changes in the numbers and type of activity of the working population, and the way in which lifestyles themselves are changing. The resulting manifestations of alterations in shopping behaviour and product preference are of interest to the retailer, as they may require some adaptation to the retailer's business in order to maintain an adequate customer flow.

*Caselet*

## Case: The Large Retail…

Is the average Indian consumer retail-ready or is retail readying the Indian consumer? Either way, changing shopping habits in the country are giving global retail giants the perfect setting for their Indian entries.

Take a look at this: the average ticket value (transaction value of goods sold) of the Indian consumer in large retail formats like Lifestyle, Shopper's Stop and even malls has doubled in the last two years.

Lifestyle International stores across the country clock an average of Rs 1,500-1,600 ticket value per consumer, and during festive seasons such as Christmas and Diwali, spending goes up by 40 per cent averaging around Rs 2,000 ticket value per consumer, says Mr Sankar Suryanarayan, Vice-President, Marketing, Lifestyle International. He is expecting a footfall of 1.5 million at 11 Lifestyle stores across the country during the next one month.

Mr Gibson G. Vedamani, CEO, Retailers Association of India, said that average spend in large formats hovered around Rs 800-900 two years ago when the country was in the first stages of the retail boom.

"It has doubled now. Even supermarkets have doubled their ticket value. From Rs 250-300 a couple of years ago, they are now seeing an average family billing worth Rs 600," he said terming this "a good ticket size."

While demand and potential for more formats will grow, the country's supply chain is yet to match the requirement, according to Mr Govind Shrikhande, CEO, Shopper's Stop.

Lack of enough merchandise and variety is still restricting the Indian shopper, but there has also been an increase of cash memos by about 20 per cent.

This growth is also accompanied by a significant change in the billing value of non-apparel products such as cell phones, watches and personal care products.

***Source:*** thehindubusinessline.com

## Self Assessment

State whether the following statements are true or false:

1. A retailer's role in the field of personal consumption is that of distributor and facilitator.
2. Retailers do not come in direct interaction with the consumers.

Notes

3. A retail consumer is affected by both his macro and micro environment.
4. Retailers need to group their consumers into different segments and then offer them specific goods.

## 4.2 Factors Influencing Retail Shopper

Before studying what factors influence the retail shopper, let's see what factors influence consumers, in general.

### Cultural Factors

Cultural factor divided into:

***Culture:*** The set of basic values perceptions, wants, and behaviours learned by a member of society from family and other important institutions. Culture is the most basic cause of a person's wants and behaviour. Every group or society has a culture, and cultural influences on buying behaviour may vary greatly from country to country.

***Sub Culture:*** A group of people with shared value systems based on common life experiences and situations. Each culture contains smaller sub cultures a group of people with shared value system based on common life experiences and situations. Sub culture includes nationalities, religions, racial group and geographic regions. Many sub culture make up important market segments and marketers often design products.

***Social Class:*** Almost every society has some form of social structure, social classes are society's relatively permanent and ordered divisions whose members share similar values, interests and behaviour.

### Social Factors

A consumer's behaviour also is influenced by social factors, such as the:

***Reference Groups:*** It can be two or more people who interact to accomplish individual or mutual goals. A person's behaviour is influenced by many small groups. Groups that have a direct influence and to which a person belongs are called membership groups. Some are primary groups includes family, friends, neighbours and coworkers. Some are secondary groups, which are more formal and have less regular interaction. These include organisations like religious groups, professional association and trade unions.

***Family:*** Family members can strongly influence buyer behaviour. The family is the most important consumer buying organisation society and it has been researched extensively. Marketers are interested in the roles, and influence of the husband, wife and children on the purchase of different products and services.

***Roles and Status:*** A person belongs to many groups, family, clubs, and organisations. The person's position in each group can be defined in terms of both role and status.

*Example:* M & "X" plays the role of father, in his family he plays the role of husband, in his company, he plays the role of manager, etc.

A role consists of the activities people are expected to perform according to the persons around them.

Notes

### Personal Factors

It includes:

***Age and Life cycle Stage:*** People change the goods and services they buy over their lifetimes. Tastes in food, clothes, furniture, and recreation are often age related. Buying is also shaped by the stage of the family life cycle.

***Occupation:*** A person's occupation affects the goods and services bought. Blue collar workers tend to buy more rugged work clothes, whereas white-collar workers buy more business suits. A company can even specialize in making products needed by a given occupational group. Thus, computer software companies will design different products for brand managers, accountants, engineers, lawyers, and doctors.

***Economic situation:*** A person's economic situation will affect product choice.

***Life Style:*** Life Style is a person's pattern of living, understanding these forces involves measuring consumer's major AIO dimensions. i.e. activities (Work, hobbies, shopping, support etc.) interest (Food, fashion, family recreation) and opinions (about themselves, Business, Products)

***Personality and Self concept:*** Each person's distinct personality influences his or her buying behaviour. Personality refers to the unique psychological characteristics that lead to relatively consistent and lasting responses to one's own environment.

### Psychological Factors

It includes these Factors:

***Motivation:*** Motive (drive) a need that is sufficiently pressing to direct the person to seek satisfaction of the need.

***Perception:*** The process by which people select, organize, and interpret information to form a meaningful picture of the world.

***Learning:*** Changes in an individual's behaviour arising from experience.

***Beliefs and attitudes:*** Belief is a descriptive thought that a person holds about something. Attitude, a person's consistently favourable or unfavourable evaluations, feelings, and tendencies towards an object or idea.

*Task* Review the different motivations for shopping. Give an example of a shopping incident that would illustrate each one.

### Now let's look at the factors that influence retail shoppers

#### *Low Price*

Most of the Indian consumers are price conscious. In present scenario the consumer look for value or value for money. Bundle of benefits with affordable price. Price reductions; cost savings, promotional offers like buy one get one free can persuade an unintended purchase. Before step into the shop consumer decides his budget to spend on purchases. If he gets more products within the budgets, he feels very happy. Present day unorganized market is playing a vital role. Due to the private labeled brands the customer can get it with low price. In most cases the attitude of the consumer remains towards the price and not towards the quality.

Notes

### Mass Distribution

The product can be available as convenient to the customer, thus the easy accessibility to the consumer is preferred by the marketer. It refers to making the item availability in as many locations as possible.

*Example:* Shampoo, Hair oils, babul gums

### Self-service

Self-service leads to impulse purchases in traditional stores. It facilitates consumer to gather, evaluate and take decision. In self-service, the consumer has the opportunity to pick the items as per his intentions. He could not depend on the clerk or counter salesman. In this process, consumer can shop more quickly with more freedom to look at. Language can be a problem to some of the non-regional people. Self-service is beneficial to such type of people.

### Prominent Store Display

The store display must be prominent and eye-catching. So the consumer notices the product.

### Low-marginal Need for an Item

It refers to the degree that the consumer requires or needs the item.

*Example:* Milk, Eggs, and Corn flakes as morning break fast.

### Small Size and Light-weight

Smaller or lighter items that can be easily added to existing purchases are more appropriate impulse items.

### Ease of Storage

If the consumer does not have the space for the item, the potential impulse purchase could be eliminated. If the storage efforts outweigh the benefit or advantage of the item, the impulse to purchase the item will be discarded.

## Self Assessment

Fill in the blanks:

5. Groups that have a direct influence and to which a person belongs are called ..... groups.
6. A ..... consists of the activities people are expected to perform according to the persons around them.
7. An individual's pattern of living is referred to as his ..... .
8. ..... is the process by which people select, organize, and interpret information to form a meaningful picture of the world.
9. ..... is a descriptive thought that a person holds about something.
10. ..... refers to changes in one's behaviour arising from experience.

## 4.3 Customer Decision-making Process

Notes

There are three fundamental patterns which a consumer can follow and they could be:

(i) Brand first, retail outlet second

(ii) Retail outlet first, brand second

(iii) Brand and retail outlet simultaneously.

A consumer wanting to buy a car may collect information on brands and purchase it from a retail outlet based on his perception of price offered or after-sales service provided by the outlet (typically, search for information on brands is followed by retail outlet selection in durables). In certain product categories, especially where 'category killers' exist, consumers may think of the retail outlet initially and then the brands.

*Example:* Television, refrigerator and audio products retailed through outlets like Vivek and Co. in the South.

One more dimension may be to compare brands in the evoked set at retail outlets which also exist in an evoked set of their own. This is highly possible, especially in the Indian context where dealers develop a social relationship with consumers, especially in semi-urban and rural areas. Primary research could be used to discover the specific sequence involved in a situation of this kind. A 'brand first' dimension may need feature-based advertising and a 'retail outlet first' dimension may require a set of point-of-purchase (POP) materials and special training to sales personnel to recognise the needs of consumers.

*Caution* Further, if it is known that a number of consumers may be oriented to visit their favourite retailer (before obtaining information on brands) in a geographical area, there would have to be more emphasis on regional/local advertising which highlights the retail shop rather than regular brand-based national advertising.

### Retail outlet first and brand second

When a number of consumers follow this sequence of decision-making, display of point-of-purchase material and building the image of the outlet becomes important. The manufacturer of the brand may have to ensure that the brand (and the variants demanded) will be available at the key outlets in a locality. Point-of-purchase materials which are to be used at the retail outlet may require primary research - should visuals be used, should product features be used, should the POP material be in the regional language. There may also be a need to monitor competition from other retail outlets to ensure that consumers are kept satisfied in terms of service, price, promotional deals and ambience. This is especially applicable to durables retailing in India (in cities). Retailers attempt to increase consumer traffic by providing a number of 'add-ons'.

### Brand first and outlet second

The brand was probably thought of by the consumers because (i) the consumers may not have developed a relationship with any retailer which is strong enough to get into the 'evoked retail set' or (ii) the brand has got into the evoked set because of advertising or positive word of mouth. Local advertising with the mention of brand names which have already got into the evoked set would enable consumers to be 'pulled' to the outlet.

Notes

Primary research may be required to identify the brands in the evoked set. This feedback may have to be provided by the manufacturers of a brand to retailers in various regions (especially if it is a brand with a major chunk of the market and one which is nationally advertised). Even multinational outlets could make use of this approach and mention the brands in the evoked set (in a given geographical area). This is likely to improve traffic to the outlet. Besides, the evoked set could also change from time to time depending on the strategies of brands.

About two decades ago, brands like Solidaire, Dyanora and Crown may have been top-of-the-mind (in a specific geographical area) but slowly gave way to other brands - these changes should be captured (how often this happens, why, and the differences between markets) to formulate retail strategies. The local advertising could be different from the national advertising for the brand. A brand may be advertised on features nationally but the retail outlet in may prefer to highlight the effective after-sales service associated with the brand as this may be a priority of consumers. The combination of 'push-pull' strategy is shown in the table.

The interest generated in the brand would have to be backed by good pre-sale services at the outlet.

### Brand and retail outlet simultaneously

When consumers think of the brand and retail outlet together, it means that they have a certain preference for the outlet and would like to check the evoked set of brands there. The marketer would have to carry out primary research to find out specific markets where consumers have a very positive relationship with retailers. This is important because of the influence of retailers over the purchase behaviour of consumers in the Indian context.

It may also be worthwhile to check if the evoked brands are carried by the retailers who have a positive relationship with the target segments. This is to ensure that the retailers who have a favourable perception among the target segment carry the desired brands. Failing this, consumers may turn to a different retailer, which would be to the disadvantage of a retailer who has already won the confidence of consumers. Retail sales personnel also become important in this situation. The prospective consumers are "carried over" to the purchase stage by the store personnel and hence there should be incentive programmes for the store personnel.

If a company such as Samsung or Sony is dealing with a number of brands/sub-brands, it has to ensure the availability of specific brands which may interest the consumers. If the retail outlet is a large one dealing with a number of brands (like Vivek or Croma), a shop-in-shop arrangement may be preferable. This model puts the brand in focus and reinforces the positive association a consumer may have about it. A considerable amount of pre-sale service would have to back up the shop-in-shop concept.

The shop-in-shop concept creates an aura of exclusivity. Consumers tend to have higher expectations about the pre-sale service and the attention given to them. A large store also is likely to stock several brands and hence all brands in the evoked set would have to compete with each other to progress from the evoked set to choice set. Large outlets may also have a built-in provision for a lower price (because of volumes) and hence may be in a better position to clinch the deal with consumers who may simultaneously consider both the brand and the retail outlet.

*Task* Interview 10 people and ask them about their brand or store preferences. Ask whether they purchase from specific retail stores or they choose brands over stores. Prepare a short report based on their answers.

## Consumer Buying Process

Notes

People decide whether to buy a product or not. There are many parameters which are evaluated before such decision is made. Every consumer goes through a process, which leads to a purchase of a product. Depending on the product type, the duration of this process varies. It may range from few seconds (Impulse Buying), to days (Groceries), to months (Car, TV, etc.), or even years (House, Land, etc.). The process consists of five different stages

**Figure 4.1: Consumer Buying Process**

*Source:* http://marketingfaq.net/2011/12/consumer-buying-decision-process/

As well as understanding the retail consumer from the point of view of the masses, or total potential market viewpoint, the study of consumer behaviour is also very much concerned with how we consume as individuals. Established theory suggests that each time we purchase something we go through a process composed of a number of key stages. A retailer needs to be aware of the extent to which they can contribute to the purchase decision-making process.

### *Needs Recognition*

Consumers recognize problems in the for of need, or a physical cue or stimulus. A person looks at the fuel gauge of his/her car, and knows that he/she should refuel. A person smells roasted coffee beans and might be induced to drink coffee. Such visual, or other physical cues, trigger problem or need recognition.

To begin with, the retail environment itself can be used to draw attention to products and stimulate impulse purchases. In this case the need is generated during the shopping process rather than prior to it. In other instances, the recognition of need may be closely associated with the retail outlet that has become strongly connected to particular items.

*Example:* An empty refrigerator is more likely to prompt the thought 'I must visit the supermarket', than the specific product-related thought 'I must buy a box of eggs'.

### *Information Search*

In this stage, the consumers look for solutions, to their problems or needs. This can come in the form of past purchase decision, or the consumer may also look for advice from family or friends. For expensive products, the consumer may research the product online, read reviews, and may be also induced to go and see the product and feel it (Test Drives for cars, TV demonstrations, etc.)

Notes

### *Evaluation of Alternatives*

Here the consumers evaluate the purchase options based on the technical specifications, product attributes, and personal factors like brand preference, personal experience, testing/sampling. Consumer/Company reviews of the products influence the consumer's evaluation at this stage.

### *Purchase Decision*

A consumer's decision to buy also includes whether to buy?, Where to buy?, and When to buy?. In case of routine goods like groceries, the consumer might go to his/her favourite store and buy. But in the case of *white goods*, and *brown goods*, the consumer may browse multiple stores. They evaluate the stores based on past experience, ambience, helpfulness of *sales* staff, visual appeal, offers, and special discounts.

### *Post Purchase Evaluation*

Immediately after purchase, the consumer mentally ranks the whole buying experience, and satisfaction. This includes decision on whether he/she likes the store, or whether he/she likes the product and the quality. Such evaluation determines whether a consumer will buy the product or brand again, or visit the store again. Consumers who are happy with the product that they purchased, and the buying experience, will become repeat customers, and they are more likely to tell others about the experience.

In the second stage, consumers use retail outlets extensively for information about goods and services. Retailers provide information in many forms, including point-of-sale information, leaflets and catalogues, websites, interactive product trials such as food tasting, trying on garments or listening to music, and in the one-to-one advice given to customers about their intended purchase by sales personnel. In particular, a sales person can help to move a customer from the stage where they are searching for information about products, to the point at which they start to evaluate the alternatives on offer and make a choice.

*Case Study*

## Case: Cadbury-Kraft Focuses on Consumer Behaviour Inside Shops

Shelves full of Oreo biscuits at a local Mumbai store are described as a "blue wall" by visiting Cadbury-Kraft executives. The food giant has attempted to replicate the metaphoric "blue-wall" in many stores in Mumbai and other cities in a bid to drive sales in the last one year.

The results have been encouraging. Since its launch, Oreo has garnered an over six percent market share in the lucrative and intensely fought Rs 4,000-crore premuim biscuit market, where it competes with Britannia's Treat-O and Bourbon, Parle Products' Kreams and Hide & Seek, and ITC's Sunfeast, among others.

What Cadbury-Kraft is doing with Oreo is part of a game that includes other brands and categories as well. In the last year, the firm has aggressively pushed a marketing & sales programme that has targeted shoppers in the top metros and cities of the country.

Branded visicoolers, a range of dispensers developed by local and international design experts, are part of the company's efforts to make the overall shopping experience exciting

*Contd...*

Notes

for consumers. The firm has refurbished packaging of its brands such as chewing gum brand Bubbaloo and pushed promotions to drive sales.

Taking a leaf out of rival Hindustan Unilever's retail strategy in Perfect Stores, which focuses on in-store display and placement of products after studying shopper behaviour and preferences, Cadbury-Kraft will follow a similar path at the top 50,000 high-end groceries, food stores and chemists within its retail universe of over 700,000 stores in India.

***Studying consumers***

Sunil Taldar, director, sales and international business, Cadbury-Kraft Foods, said the focus on behaviour of consumers in shops is important because they make the final purchase decision there.

"How your product is positioned, its packaging, pricing, etc. goes a long way in determining whether they will buy the product," said Taldar, who has worked with Cadbury for more than a decade in different markets, including China, and moved to India last year to head sales for the combined Cadbury-Kraft business.

Cadbury-Kraft Foods, an unlisted unit of US food major Kraft Foods, which in 2010 bought Cadbury, has been able to drive incremental sales growth of over 10 per cent in the last one year, helping it achieve a 40 per cent growth in sales during the first nine months of 2011, said Taldar. The company worked furiously last year to integrate Kraft brands such as Oreo and Tang into the strong Cadbury distribution system in India. For calendar year 2010, Cadbury reported net sales of Rs 2,652 crore - a growth of close to 30 per cent over the previous year.

The 50,000 outlets Cadbury-Kraft is focused on in India stock one or more of these products: chocolates which include Cadbury Dairy Milk, Celebrations, Bournville, 5 Star, Perk, and Gems; confectionary such as Bubbaloo, Eclairs, and Halls; biscuits such as Oreo and powdered beverages that include Tang and Bournvita.

Taldar said the company has put in place consumer promotions within stores in key categories such as chocolates and biscuits to help drive sales at these outlets.

While the combined Cadbury-Kraft business remains smaller than other strategic markets within Kraft Foods, which recently announced that it was splitting into two - a $32-billion snacking powerhouse and a $16-billion grocery business - India is still key. Irene Rosenfeld, chairperson & chief executive of Kraft Foods, who visited India in November 2011, said that she is keen to see the Indian business emerge as one of the top five food companies in the country.

Cadbury-Kraft's main rivals include key food companies in India, such as Nestle, which own Maggi and Kit Kat; Britannia; HUL, makers of Knorr, owners of Kissan and Bru; Parle Products, ITC and GlaxoSmithKline with its Horlicks, Viva, and Maltova brands.

Like most of its rivals, the bulk of Cadbury-Kraft's sales come from traditional retail stores. Modern trade or organised retail constitutes only one per cent of its universe, but the company is keen to push this number up, given that packaged foods as a category show greater traction in such retail outlets.

Cadbury-Kraft is banking on technology, much like HUL, to help it replenish stock quickly at stores, both traditional and modern. "We have upgraded the frontline sales force with handhelds to capture store orders, which are linked to the distributor billing software," said Taldar. "Distributors are linked to company portals to manage auto replenishment of inventory."

*Contd...*

Notes

The Mumbai-based company is looking to increase its retail footprint beyond the over 700,000 stores in 5,200 towns that it now reaches. This number will be ramped up this year, especially in rural areas, said Taldar.

***Question:*** Why do you think Cadbury-Kraft want to study consumer behaviour inside stores?

***Source:*** Business Standard

### Self Assessment

State whether the following statements are true or false:

11. If an individual is loyal to a particular store, he would probably follow 'brand first and outlet second' type of decision-making.
12. It is very important for a marketer to identify the brands in the evoked set of the consumers.
13. The shop-in-shop concept creates an aura of exclusivity.
14. Salesperson can be a good source of brand information for the consumers.
15. In high-involvement products, the consumer may be influenced by some in-store promotional activity.

## 4.4 Summary

- Customers exist within a society, and are subject to a whole host of influencing factors that shape the way they shop.
- Customers are complex human beings, they may act differently according to the type of shopping trip they are on, seeking value during one shopping mission, and then indulging themselves on another.
- This gives rise to the notion of a hybrid customer, within a market of customers who seem to be increasingly less predictable as groups.
- At the same time, international retailing activity reflects an acceptance of global brands in a worldwide market which needs and tastes converge.
- Social, psychological, and personal factors influence consumer purchase decisions. Social factors are forces exerted by other people and include culture and Sub-culture, roles and family, social class, and reference groups.
- Psychological forces are internal to individuals that affect purchase behaviour and include motivation perception, learning, attitudes, and personality.
- Personal factors are forces unique to an individual consumer and include demographic factors, lifestyle, situational factors, and an individual's involvement in purchase.
- There are three fundamental patterns which a consumer can follow and they could be: (i) Brand first, retail outlet second, (ii) Retail outlet first, brand second, and (iii) Brand and retail outlet simultaneously.

## 4.5 Keywords

***Attitude:*** It is a favorable or unfavorable predisposition that consumers hold towards products and services.

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***Beliefs:*** These are the descriptive thoughts that people hold towards products and services.

***Consumer:*** An individual or organisation unit that uses or consumes a product service.

***Culture:*** It is the wholesome way of consumers and explains his mosaic of living. It is a way of living that distinguishes a group of people from others. Culture is learned and transmitted from one generation to another.

***Evoked set:*** A group of relevant brands that a prospective consumer is favorably familiar with when they are thinking about making a purchase.

***Family:*** A group of two or more people related by blood, marriage or adoption, living together in a household.

***Impulse Buying:*** A type of low involvement decision making where purchases are made with little or no advance planning.

***Perception:*** It is the process by which people select, organize, and interpret information to form a meaningful picture of the world.

***Reference group:*** People whose attitudes, behavior, beliefs, opinions, preferences, and values are used by an individual as the basis for his or her judgment.

## 4.6 Review Questions

1. Examine the role of studying consumer behaviour in success of retail brands like Big Bazaar and Shoppers Stop.
2. Discuss two situations, with examples, that show the influence of culture/Sub- culture on consumer purchase behaviour.
3. Describe how reference groups can influence consumers' buying behaviour. Give two examples.
4. Discuss the impact of psychological variables on consumer behaviour, with examples.
5. Discuss the consumer decision making process in brief.
6. What characterizes consumers' shopping behaviour? How can the retailers ensure that consumers' choose their outlet to shop?
7. For a retailer of your choice, discuss how elements in the product/service offer reflect the lifestyle of their customers.
8. Discuss the cultural changes that are taking place within your country. Identify retailers who stand to gain and those who may lose out because of these changes.
9. Review the buying process that you went through when you last purchased a high involvement product. To what extent did the retail outlet (rather than the product itself) influence your choice of product and store? Can you think of anything further retailers could have done to get you to purchase within their outlet? What would definitely put you off buying this product in a particular retail outlet?
10. Compare and contrast the concept of a shopping attitude and a shopping motivation.

Notes

## Answers: Self Assessment

1. True
2. False
3. True
4. True
5. Membership
6. Role
7. Lifestyle
8. Perception
9. Belief
10. Learning
11. False
12. True
13. True
14. True
15. False

## 4.7 Further Readings


*Books*

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# Unit 5: Retail Strategy

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## Objectives

After studying this unit, you should be able to:

- Realise the concept of business world
- Discuss the retailing strategies
- Assess the international expansion efforts of the retailers
- Explain the concept of retail value chain

## Introduction

'Strategy' means several things to several people at different points of time. It is fashionable nowadays to use the word 'strategy'. Hence, people talk about defense strategies, business strategies, strategies for games (be it cricket or chess), National Strategies, Global Strategies and many more strategies.

The retailing strategy outlines the mission and vision of a retail organization. It is a systematic plan that provides the retailers the overall framework for dealing with competitors as well as technological and global movements. In the past traditional retailers mainly reacted to changes in the business environment, but with increasing business complexities, this is no longer valid. The reason of this, competition in all the disciplines of retailing is increasing and changes in the consumer's tastes, need, wants, technological environment and other external environmental variables are taking place very fast. Long term strategies and continuous examination of strengths, weaknesses, opportunities and threats (SWOT analysis) is required to ensure that the growth

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opportunities are not missed and action is taken at the right time to combat potential threats in the prevailing business environment.

## 5.1 Concept of Business World

Business is an economic activity, which is related with continuous and regular production and distribution of goods and services for satisfying human wants.

All of us need food, clothing and shelter. We also have many other household requirements to be satisfied in our daily lives. We met these requirements from the shopkeeper. The shopkeeper gets from wholesaler. The wholesaler gets from manufacturers. The shopkeeper, the wholesaler, the manufacturer are doing business and therefore they are called as Businessman.

Retailing is the latest buzzword among the business. It is evolving into a global, high-tech business and occupies a pre-eminent position in the economics of all modern societies. Retailing today is at an interesting cross road. Town with lower income and higher employment trends would give rise to fragmentation of the retail universe resulting in a large number of small outlets. The composition of the retail universe in India is also quite diverse. It is important to bear in mind that only those outlets that stock Fast Moving Consumer Goods (FMCG) brand have been considered and the total number of outlets dealing in all kinds of products may be much higher.

The growth of retailing in most countries over the world is synonymous with the growth of the information technology sector in that country, as no retailer can do justice to his business or to his customers unless he is able to collect and analyze the vast amount of data available to him. Retailers usually deal with very large volumes of data as thousands of suppliers, which are finally purchased by thousands of customers as well. By enabling the retailer to keep track of all this information and to analyze the reports that emergence from such data, IT plays an extremely critical role in the development of anywhere in the world.

The concept of retailing however, is still under- development in India, with emphasis only being laid on distribution. The Indian retail market is quite large but highly fragmented, comprising very few large retailers. It is estimated that there are approximately 1.8 million urban retail outlets in this unorganized sector, out of which only 7 percent achieve sales of over ₹ 8 lakh per annum. These traditional corner stores, at best, constitute nothing more than a cost and distribution overhead. At worst, they destroy the very concept of making shopping a pleasant experience. In fact it is estimated that till date less than 2 percent of the retailing business in India comes from organized retailing.

The Indian retailing Industry is becoming intensely competitive, as more and more players are vying for the same set of customers.

*Did u know?* According to At Kearney, the windows of opportunity shows that Retailing in India was at opening stage in 1995 and not it is in peaking stage in 2006. India's retail market is expected to grow tremendously in next few years. To gain success and stabilize in the market retail management has to be developed within the context of marketing approach.

The position of retail store manager is one that holds vast duties and great responsibilities. There are a wide variety of retail stores which employ retail store managers to maintain the overall quality and day-to-day operations of the establishment. In order to learn more about the duties and responsibilities of a retail store manager, it is important to highlight what in fact these individuals do on a daily basis.

## Self Assessment

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State whether the following statements are true or false:

1. The Indian retailing industry is increasingly becoming less-competitive.
2. Business is a continuous process.

## 5.2 Strategy – The Retail Perspective

A company's strategy provides a central purpose and direction to the activities of the organization to the people who work in it, and often to the world outside.

Using suitable strategies and communicating them to all important groups inside and outside the corporate firm would gain co-operation from all corners.

Strategy if defined clearly by the top management and accomplished well, provides the purpose and focus for all other activities and starts the organization on the road to successful operation. 'Every long journey starts with taking the first step', says a proverb. Obviously, the formulation of a strategy is only the beginning but the beginning is the most significant point in any enterprise.

### 5.2.1 Levels of Strategy for Retail Organisations

An organization's strategy includes where it wants to go and how it intends to get there. This definition applies both to the overall strategy of an organization and to the strategies of its major sub-units. The implications of strategy at different levels can be distinguished. Analytically, there are three levels of strategy:

1. Corporate level strategy
2. Business unit strategy or Retail Format level
3. Functional level strategy

At the corporate level, strategic decisions relate to organization's wide policies and are most useful in the case of multidivisional companies or firms having wide ranging business interests. The nature of strategic decisions at the corporate level tend to be value oriented, conceptual and less concrete than decision at the business or functional level. There is also greater risk, cost and profit potential as well as greater need for flexibility associated with corporate level strategic activities. These are natural outcomes of the futuristic, innovative and pervasive character of corporate level strategy. Major financial policy decision involving acquisition, diversification and structural redesigning belong to the category of corporate strategy.

At business unit level (retail format level) decision-makers are primarily concerned with the immediate industry or product market issue, and with policies bearing on the integration of the functional units. Retail business level strategic decisions translate the general statements of direction and intent generated at the corporate level into concrete functional objectives and strategies for divisions or strategic business units (operating division of a firm which serves a distinct product/market segment or a well defined set of customers or a geographical area). Strategic decisions at the business level should include policies involving new product development, marketing mix, research and development, personnel etc.

Functional strategic level strategy involves decision making at the operational level with respect to specific functional areas-production, marketing, personnel, finance etc. Decisions at the functional level are often described as 'tactical' decisions. These decisions are necessarily guided

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by overall strategic considerations and must be consistent with the framework of business strategy.

*Example:* Marketing policy decisions should provide guidelines for marketing management in accordance with the chosen strategy, providing the overall direction of business.

While corporate and business level strategies are concerned with "doing the right thing", functional strategies stress on "doing things right".

### 5.2.2 Strategic Retail Planning Process

This text developing and applying retail strategy, retailers are required to follow a step-by-step procedure or planning process. The planning process involves the present stage of business, the formulation, lists of available strategic options, and the implementation of the selected strategies. Considering the importance of strategic decisions for the future success of the business, a systematic approach is essential. The strategic planning process, after considering the HR potential and the unique selling proposition (USP) of a particular store takes proper shape.

Strategic retail planning process divided into the following four steps:

1. ***Deciding the Store´s Mission and Objectives:*** The retail strategic planning process starts with the identification of a store's mission for its existence, and hence the scope of the retail store. The mission of a store is identifying the goods and services that will be offered to customers. It also deals with the issue of how the resources and capabilities of a store will be used to provide satisfaction to customers and how the store can compete in the target market vis-à-vis its competitors.

   The mission also involves the way of the store's functioning. How a store will work and accomplish its day-to-day operations. What is the emergency planning? All these questions are answered in the store's mission statement.

*Example:* Big Bazaar, they have philosophy of customer satisfaction through 'manufacturing retailing'.

   This reflect not only the way it tends to treat its customers but discuss secret of its competitive advantage, i.e. the profit saved from absence of intermediaries like agents and brokers, the profit saved is thus, distributed to the customers by way of low price items.

   Once the organization mission has been determined, its objectives the desired future positions that it wishes to reach, should be identified. A store's objectives are defined as ends that the store seeks to achieve by its USP and operations.

   The store's objectives may be classified into two parts:

   (a) *External store objectives:* are those objectives that define the impact of store on its environment.

*Example:* To develop high degree of customer confidence by providing quality goods at affordable price.

   (b) *Internal store objectives:* Are those objectives that define how much is expected to be achieved with the available resources.

*Example:* To raise the store turnover by 20% in the coming year.

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2. ***Situational Analysis:*** The objective of doing store's situation analysis is to determine where the store is at present and to forecast where it will be if the formulated strategies are implemented. The difference between current and future position is known as planning. And the objective of conducting store's situation analysis, normally study in the context of external environment and internal environment.

***External analysis***

The purpose of examining the store's external environment is to study the opportunities and threats in the retailing environment. The external analysis studies factors that affect the macro-environment of the retailing industry and the task environment. Under external analysis retailer studies these parameters:

- Economic environment of retailing
- Political/Legal environment of retailing
- Socio-cultural environment of retailing
- Technological environment of retailing
- International environment of retailing

***Economic environment of retailing***

- Inflation
- Employment
- Disposal income
- Business cycle
- Energy availability and cost
- Others

***Political/Legal environment of retailing***

- Monopolies legislation
- Environmental protection laws
- Taxation policy
- Employment laws
- Government policy
- Legislation
- Others

***Socio-cultural environment of retailing***

- Demographics
- Distribution of income
- Social mobility
- Lifestyle changes
- Consumerism
- Levels of education
- Others

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***Technological environment of retailing***

- New discoveries and innovations
- Speed of technology transfer
- Rates of obsolescence
- Internet
- Information technology
- Others

***International environment of retailing***

- Growth
- Opportunities
- Others

***Internal analysis***

The objective of studying the internal environment of its own store is to identify the store's capabilities and weakness. The store will try to increase its capabilities, and overcome the weaknesses that deter the business profit. While doing the internal analysis, the store examines the quality and quantity of its available resources and critically analysis how effectively these resources are used. These resources for the purpose of examining are normally grouped into human resource, financial resources, physical resources and intangible resources.

The questions may arise under these resources:

***Human Resource***

- Is the present strength of employees at various levels sufficient for future action?
- Are the employees trained and capable to perform the tasks assigned to them?
- Are the employees loyal to the store?
- Are the employees punctual and regular?
- Are the employees skilled matched to their assigned tasks?

***Financial Resource***

- What is the total cash flow from the store's present activities?
- What is the ability of the retail store to collect money at the time of requirement/ emergency?
- How effective and stable are the financial policies?
- What is the ratio between fixed and current assets?
- What are the contingency plans in case of negative cash flow?

***Physical Resources***

- What is the contribution of fixed assets?
- What is the position of abandoned/unused assets?
- How effective and updated are the store's information systems?

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*Intangible resources*

- What are the present capabilities of the company's management?
- How effective is the R&D cell?
- How good is the competitor's intelligence system?
- How effective are the store's loyalty programmes?
- What is the capability of a retail store manager?
- Are customers loyal towards the company's products?

3. ***Retail Strategy:*** It is a clear and definite plan outlined by the retailer to tap the market. A plan to build a long-term relationship with the consumers. Process of strategy formulation in retail is the same as that for any other industry. It starts with the retailer defining or stating the mission for the organization.

***Mission***

The mission is at the core of the existence of the retailer. Other aspects of the strategy may change over a period of time or vary for different markets.

***Functions of Retail strategy***

(a) *Retail strategy define mission or purpose:* A Mission statement is a long term purpose of the organization. It describes what the retailer wishes to accomplish in the markets in which he chooses to operate. Retailers mission statement would normally highlight the following:

- The products and services that will be offered.
- The customers who will be served.
- The geographic areas that the organization chooses to operate in the manner in which the firm intends to compete.

(b) *Retail strategy conduct a situation analysis:* Once the retail mission is defined, the retail organization needs to look inwards; Understand what its strengths and weaknesses are; Look outwards to analyze its opportunities and threats; Situation analysis helps the retailer determine his position and his strengths and weaknesses; Helps formulate a clear picture of the advantages and opportunities which can be exploited; The weaknesses need to be worked upon. This forms the basis or the core element of any strategy.

(c) *Retail strategy identify options/strategic alternatives:* After determining the strengths and weaknesses vis-à-vis one environment retailer needs to consider various alternatives available to tap a particular market. Igor Ansoff presented a matrix which looked at growth opportunities. He focused on firm's present and potential products in the existing and new markets. Ansoff's matrix also helps to understand the options available to a retailer.

The alternatives available to a retailer are: Market Penetration, Market Development, Retail Format Development and Diversification.

- **Market penetration strategy may focus either on:** Increasing the number of customers; Increasing the quantity purchased by customers (basket size); Increasing the frequency of purchase; Increasing the number of customers can be achieved by adding new stores and by modifying the product mix. Another approach is to encourage salespeople to cross sell. Market penetration strategy

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is the least risky one, since it controls many of the firm's resources and capabilities. However, market penetration has limits. Once the market approaches saturation, a new strategy needs to be pursued if the firm is to continue growth.

- **In Market expansion/development**, When a retailer is said to reach out to new market segments or completely changes his customer base. This strategy involves: Tapping new geographical markets; Introducing new products to the existing range that appeal to a wider audience; Expansion by adding new retail stores to existing network is an example of geographical expansion; Introducing a pharmacy in a supermarket (e.g. the medicine Shoppe at the Haiko Supermarket in Mumbai) is an example of a retailer introducing new products, appealing to a different audience.

  Another example is McDonald's who introduced ice creams for ₹ 7. This not only created add on sales, but also brought in customers who had the perception that McDonald's is an expensive fast food restaurant.

- **Retail format development and diversification:** When a retailer is said to introduce new retail format to customers. *Example:* Fast food retailers like McDonald's and Subway offer limited menus inside large department stores. Another example is bookstore chain Crosswords, opening smaller format stores by the name Crossword Corner at Shopper's Stop Strategy may be appropriate if the retailer's strengths are related to specific customers, rather than to specific products. In this situation, retailer can leverage its strengths by developing a new product targeted to his existing customers.

(d) *Retail strategy set objectives:* Translation of mission statement into operational terms Indicate Results to be achieved. Give direction to and set standards for the measurement of performance. Management sets both long term and short-term objectives. One or two year time frames for achieving specific targets are short-term objectives. Long term objectives are less specific and reflect the strategic dimension of the firm. Two important focus areas of retailers are Market Performance and Financial Performance. Objectives are set keeping these focus areas in mind Sales volume targets. Market hare targets Profitability targets Liquidity targets Returns on investment targets.

(e) *Retail strategy obtain and allocate resources needed to compete Resources needed by a retailer:* First, Human Resource (HR) plan must be consistent with overall strategy of the organization. HR management focuses on issues such as recruiting, selecting, training, compensating, and motivating personnel. These activities must be managed effectively and efficiently. Second, Financial Resources takes care of the monetary aspects of business shop rent, salaries and payments for merchandise.

(f) *Retail strategy develop the strategic plan:* At this stage, strategy is determined through which retailer will achieve objectives. The retailer determines and defines his target market. The retailer finalizes the retail mix that will serve the audience. Target Market – that segment of consumer market that the retail organization decides to serve. No definite process of deciding and selecting the target market. Most retailers look at the entire market in terms of both size and consumer segments to which it might appeal. From these segments, he identifies smaller number of segments that appear promising. These become possible targets. Variables like growth potential, investment needed to compete, the strength of competition, etc. are evaluated. This

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enables the retailer to arrive at the best alternative that is most compatible with the organizations resources and skills.

Considerations for successful market segmentation:

- **Measurable:** The segment should be measurable and identifiable? Accessible: Focusing market marketing efforts on a particular market segment should have a positive impact towards bringing out the desired response.
- **Economically viable:** The expense and efforts of focusing the marketing efforts in potential segments should be justified.
- **Stable:** The consumer characteristics are indicators of market potential. Hence stable indicators to be considered.

(g) *Retail strategy implement the strategy:* Implementation is the key to success of any strategy. Effective implementation of the retailers desired positioning requires. Every aspect of stores to be focused on the target market. Merchandising must be single-minded. Displays must appeal to target market. Advertising must talk to the target market. Personnel must have empathy for the target market. Customer service must be designed with the target customer in mind.

(h) *Evaluate and Control:* After implementation, the management needs feedback and should focus on Performance Effectiveness of long term strategy by periodic evaluation. Ensuring that the plans do not degenerate into fragmented ad-hoc efforts. Ensuring that all efforts are in harmony with he overall competitive strategy of business. Management can also use the process to decide on. Any future policy change. Modifications if any, in the plan, to ensure that the combination of the retailing mix variables support the firms strategy.

***Formulation of Retail Strategy:*** After analyzing the store's capabilities in terms of HR, finance, physical and intangible resources, a store manager formulates a retail strategy with regards to marketing retail positioning and retail mix.

Retail positioning is a plan of the store's action for how the retailer will enter the target market and will compete with its main competitors. Retail positioning from a retail store's point of view, is a step-by-step plan to create and maintain a unique and everlasting image of the store in the consumers mind. This process reveals the fact that understanding 'what the customer wants' is the success key to retail positioning in the market. Under retail positioning, a retailer conveys the message that its products are totally different and as per customer's requirement. The reason is that its products are attracted towards items that are new for them with the perception that if it is new, it will have some extra/added features.

Retail positioning is made possible under these circumstances:

- By differentiation of the store's merchandise from that its competitors.
- By offering a high level of service after sales at nominal cost
- By adopting low pricing policies.

***Retail mix***

The retail mix is the blend of various retail activities that in totally present the whole concept of retailing. The retail marketing and retail positioning strategies are put into effect by this retail mix, the set of controllable elements that a retailer can use to satisfy customer's needs and to influence their buying behaviour and compete effectively in the target market. Utmost care is required on the part of retail manager to select the various elements for a perfect retail mix.

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*Caution* The main elements of a retail store mix are:

- The store's location
- Merchandise assortment
- Pricing policy
- Customer service mechanism
- Visual merchandising
- Personal selling efforts
- Advertising efforts
- The store's internal and external environments.

4. ***Strategy Implementation and Control:*** It is concerned with the designing and management of retail system to achieve the best possible combination of human, financial, physical and service resources of a retail store; to achieve the formulated objectives, without timely and effective implementation also requires scheduling and coordination of various retail activities.

   Further, the spirit of teamwork is an essential part for the success of strategy implementation. If the retail store's strategies are competitive, marketing efforts are as per demand, but the sales promotion employees are not taking it seriously or are ineffective, the result will not be up to the mark. The implementation of new retailing strategies sometimes require changes in the way of functioning and duties that can lead to resistance from employees. Therefore, stores should take positive steps to reduce this resistance to change and to convince the employees that it in the long term will be beneficial for both the store and the employees.

   Strategy control deals in three basic concepts

   - Inspection
   - Detection
   - Correction

   It means after implementing the retail strategies, a retailer should assess how effectively the strategies are being implemented, how far the strategic objectives are being achieved and what has been left to be achieved in the store's objectives list. Therefore, retailers inspect the implemented strategies from time to time and detect any fault in the implementation of various retail elements. If any deficiency is found during the inspection process that has to be corrected with immediate effect without any further loss to the store.

*Task* Examine the retail strategy of Planet M and Levis in India.

### 5.2.3 Alternate Strategies

Given that the objectives are well articulated, resources are well managed but when it comes to implementation due to sudden change in internal or external environment, the old concepts or formulated policies become invalid. Now what should a retail manager do, this is not an uncommon phenomenon but can happen to any retailer. It has rightly been said that 'think

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positive but the prepared for the worst'. Considering retailers, who are sensitive to environmental changes, they always prepare a set of alternative strategies, in case change in technology or change in customer's preferences make the present schemes ineffective.

*Case Study*

## Case: Wal-Mart's Marketing Strategy

Wal-Mart is not particularly known for their impeccable customer service. Even further, Wal-Mart lacks in cleanliness and breadth of product lines. But what they lack in aesthetics, they make up for with an absolutely unparallel convenience and price competitiveness. Wal-Mart has redefined the art of online marketing, using techniques at grand and impressive scales to become one of the top company's in the wide history of corporate America.

Wal-Mart's online marketing campaign covers all facets of strategy, but through all the apparent strategies, it is their aggressiveness that has highlighted and broadened their need to succeed and remain at the top of the industry in retail. But an aggressive campaign inevitably garners controversy, and through the years, Wal-Mart has been involved with a fair amount of negative publicity directly involving their specific marketing strategies. Their bullying nature has caused many to deem them unreasonable and unfair- Wal-Mart still remains number one despite the negative attention.

Wal-Mart's marketing consists of flooding the market with their presence. This is alarming for individuals who find Wal-Mart's business practices alarming. But with such a massive quantity of stores, intensely competitive pricing, and such a large market share, their marketing strategy has entailed an overall takeover of all the appropriate markets.

They offer many types of products, with a relatively comfortable list of options. As well, Sam's Club offers an alternative for those who prefer bulk. And with such a strong base of customers, they are able to set the prices for what they pay for. If you want your product in Walmart, you are at the mercy of them setting the price they will pay. If it is below cost, then so it is. The truth is, Wal-Mart can offer a company a prime opportunity to get their product to the masses- even if they lose money doing so. Their online marketing has them being as transparent as possible in an attempt to dissuade the controversy to their name. You can purchase their entire collection of products through the web. You can read customer reviews, sign-up for a newsletter, and get options for special deals available only through the website. Despite this, such a business relies strongly on their physical location- exactly why a store finder is located right at the top in bright yellow.

This competitive nature has allowed controversy to flourish under their name. But their marketing has focused on quantity, and delivering variety in one location. Their extending hands to Subway and McDonalds for placement of restaurants in Walmart's, further validates this claim. As well, a typical customer can get glasses prescription, get their haircut, and oil changed under their building. You can purchase jewelry on one side, and draperies on the other. You can buy groceries and grab a new lawnmower (while waiting for an oil change). Their recent cooperation with SunTrust bank has allowed their presence in Southeast Walmart's. Their marketing has always relied on variety- how many single things can you do in one location.

Wal-Mart has garnered its fair share of controversy. Yet, the convenience is truly unrivalled. With such a wide breadth of options for a consumer, it seems almost silly to shop at another location where these options are severely limited. Wal-Mart's online marketing

*Contd...*

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is simply an extension of their physical stories, allowing individuals to purchase directly through the site.

***Question:*** Comment on the marketing strategy of the world biggest retailer.

***Source:*** www.strategicminds.eu

### Self Assessment

Fill in the blanks:

3. An organization's ..... defines where it wants to go and how it intends to get there.
4. At ..... level, decision-makers are primarily concerned with the immediate industry or product—market issue, and with policies bearing on the integration of the functional units.
5. Decisions at the functional level are often described as ..... decisions.
6. Big Baazar have a philosophy of customer satisfaction through 'manufacturing retailing'. This is their ..... .
7. The objective of studying the internal environment of its own store is to identify the store's ..... .
8. The ..... is the blend of various retail activities that in totally present the whole concept of retailing.
9. Retail ..... is a plan of the store's action for how the retailer will enter the target market and will compete with its main competitors.

## 5.3 International Expansion

The world over retail business is dominated by smaller family run chain stores and regionally targeted stores, but gradually more and more markets in the western world are being taken over by billion-dollar multinational conglomerates, such as Wal-Mart, McDonald's, Marks and Spencer. The larger retailers have managed to set up huge supply/distribution chains, inventory management systems, financing pacts, and wide-scale marketing plans. In the backdrop of globalisation, liberalization, and highly aware customers, a retailer is required to make a conscious effort to position himself distinctively to face the competition. This is determined to a great extent by the retail mix strategy followed by a company to sell its products.

Stirnquist (1997) proposed a model for globalisation/internationalization of retail based on Dunning's Eclectic theory and internationalization concepts, called as Strategic International Retail Expansion (SIRE).

The theory mainly concentrates on the expansion of retailers and identifies two types of expansion-global and multinational. The underlying logic behind it is that the global retailers have strong ownership advantages and expand faster than multinational retailers, who instead look for locational advantages.

So, when a retailer uses global strategic international expansion strategy, rapid expansion throughout the world will follow. Though the retailer can choose to internalize or externalize the expansion. In the former case, own stores are opened like GAP and Toys 'R' Us whereas in the latter case, franchising route is adopted, like Athlete's Foot. If a retailer uses multinational

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strategic international expansion strategy, expansion takes place in stages beginning with countries offering greatest location advantages. This expansion can be internalized when the company opens its own stores (example Sears expansion in Mexico and Canada), or externalized by using the mode of licensing, like Price/Costco's expansion in Korea.

### 5.3.1 Growth Strategies

It is assumed that retailers want to grow their company, and then they have three options (Pelegrini, 1994; Treadgold, 1991):

1. From operating their core offer in the home market they may choose to follow a strategy of sectoral expansion, whereby they move into new formats, retail sectors or even outside the retail industry.
2. The second growth strategy open to retailers is to remain with the core offer and to transfer this is that they are experienced in the operation; however, they may need to learn about and adapt to new market conditions.
3. The third method of growth is to use a combined strategy, whereby a company may move away from its core offer and also gloablise. Although this may balance the risks somewhat it may mean the board lose focus. If this strategy is taken to its extreme, the company then becomes a global portfolio or holding company.

#### Sectoral Expansion

*Example:* The John Lewis Partnership runs a chain of some 25 department stores. In addition it also operates 120+ Wait raised supermarkets.

There may seem little connection between the two but both are pitched at the mid to upper market and so have a similar target market and complementary retail offers. The company also has its own manufacturing operations and owns brand is important for both chains. The advantage of being a multi-sector retailer concentrating on the home market is that it is familiar with the domestic consumer market and its brand image is strong enough to transfer from one sector to another.

#### Global Expansion

An example of such a retailer is the German 'hard discounter' Aldi. The company was founded in the immediate post-war years with an orientation on heavily discounted limited lines of generic products.

*Example:* Since the 1960s Aldi has moved into numerous European markets and also the US, using a method of organic growth. Although a number of alternative fascias are used, all stores are practically identical. This generates vast economies and efficiencies of scale. Despite moving into a variety of markets, Aldi has made the very minimum of adaptations to its retail offer.

#### Combined Sectoral and Global Expansion

Kingfisher operates in a number of chains in sectors including DIY (e.g., B&O, Castorama) and electrical (e.g., Comet, Darty) but is divesting in general merchandise (e.g., Woolworth's). It has stores in numerous European countries as well as the far East, Canada and Brazil. The company

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has also ventured into e-commerce. The advantage of this strategy is the array of opportunities it offers; however, it also increases the problems associated with working in unfamiliar markets and in unfamiliar sectors. A danger is that the company may lose direction. It is a strategy perhaps more appropriate for experienced global companies.

*Task* Name a few Indian retailers that have expanded to foreign shores.

### 5.3.2 International Retailing

International retailing is an essential ingredient for the global economy. International retailing satisfies the increasingly complex and demanding needs of global consumers.

Global retailers are at the forefront of technology change to manage their operations and consumer interface. Consumers are international in their outlook through traveling for business through accessing the Internet, music, television and magazines, and so are looking for new experiences and a global appeal when shopping. Progressive retailers have to meet this demand through keeping abreast of global trends and working with suppliers to optimize the appropriate product mix in store. Sustainability and ethical aspects of retailing are particularly apt when working globally. This is a challenging area for retailers and is an aspect of their quality management.

Addressing the dynamics of the market for teenagers and youth market is another demanding area. Young consumers have their own finance and make their own decisions about what products they chose to buy and where from. They tend to be strongly influenced by celebrities, brands and peer-group pressure. Retailers need to understand their shopping habits and cater for the needs of this cohort. In general, consumers are increasingly brand aware and want to have access to luxury products. Own brands, or private labels, have to offer premium quality and a sense of uniqueness to attract and retain consumers' loyalty.

Retailers have long operated on global basis, yet it is only since the last decade or so of the twentieth century that they have done so on any significant scale. In the past, companies trading outside their home market were rare by comparison with number of retailers operating solely within the domestic market. Also global operation usually accounted for a much smaller part of the business than domestic trade. However, the larger retail companies that have successfully developed their marketing strategy and human resource base in the domestic market are well suited to extend development into global markets.

Other smaller players that have powerful brand and a strong retail concept also have the ability to globalize successfully through using a lower cost and risk strategy such as that of franchise.

*Did u know?* Luxury goods retailers are among some of the earliest globalists, seeking to serve a similar consumer niche in a number of cosmopolitan cities around the world. This is exemplified by Harrods, which operated a store in Argentina in the early twentieth century in order to meet the needs of colonial expatriates.

This is not to say that we have witnessed significant global expansion by many retailers. Even today, it is noteworthy that many retailers remain essentially domestic operations. In addition, many of those retailers we might perceive to be developed globalists, or indeed global operations, receive only a minority of their turnover and profit from their operations outside the home market.

#### Steps in International Retailing

1. Financial Investment/Cross Border Shopping
2. Transfer of Know-how

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3. Internationalisation of Sourcing

4. Internationalisation of Retail Operations

There are a range of methods that can be adopted in order to facilitate international sourcing, and these include indirect sourcing from foreign markets through visits to international trade shows, wholesalers and agents, and through direct means, achieved by setting up international buying offices within the key-souring countries. These international buying offices are established in order to recruit suppliers, oversee production and manage product supply and availability. In addition, international sourcing can be achieved through the establishment of international buying groups and networks, which function to link manufacturers, wholesalers, agents and retailers across national boundaries.

**Issues to be considered while going international in retail business:**

- Logistics and supply chain management
- Service quality across international boundaries
- Electronic Commerce and E-Retailing/E-tailing
- Design
- Ethical aspects of retail business
- Luxury brands
- Young potential consumers
- Global trends

Retailing is predominantly a domestic market activity. The total business of the vast majority of retailers is done within one particular country and in many cases, within one specific region or district. Consequently, when compared to other sectors, the proportion of foreign assets to total assets within retailing is low as such it has been noted that international retailing is still a minority activity for the majority of retailers.

*Caselet*

## Case: Starbucks' Expansion into the Indian Territory

Starbucks aims to open 50 outlets in India by 2012's end, through a 50-50 joint venture with Tata Global Beverages, the companies said Monday.

Tata Starbucks Ltd., as their venture is known, hopes to capitalize on the rising aspirations – and fattening wallets – of many Indians, who are eager to partake of the global latter life.

"What we are seeing is an evolution in lifestyles," said R. K. Krishnakumar, vice chairman of Tata Global Beverages. "In some ways the distinctions between the developed world and the developing world are blurring."

He said the partners would initially invest 4 billion rupees ($80 million), with the first outlet to open in Mumbai or New Delhi by September.

Long known as a nation of tea drinkers – despite a rich tradition of coffee in the south – India has embraced coffee house culture with a vengeance.

Last year, India had 1,600 cafes, up from just 700 in 2007, according to Technopak Advisors, which expects India's $170 million cafe market to grow 30 percent a year, adding up to 2,700 more outlets over the next five years.

*Contd...*

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"We're going to move as fast as possible in opening as many stores as we can so long as we are successful and so long as we are embraced by the Indian consumers," said John Culver, president of Starbucks China and Asia Pacific.

Unusually, the stores will be cobranded "Starbucks Coffee: A Tata Alliance."

The companies will also develop a tea for the Indian market under the Tata Tazo brand.

Top of Form

Bottom of Form

Last January, Starbucks signed an agreement with Tata Coffee, a unit of Tata Global Beverages, to source and roast coffee beans in India.

The alliance with Tata could help ease one of the main burdens for retailers in India: the high cost of real estate.

***Source:*** www.huffingtonpost.com

### Self Assessment

State whether the following statements are true or false:

10. Pizza Hut and McDonald's have adopted the internalised expansion route.
11. International retailing satisfies the increasingly complex and demanding needs of global consumers.
12. International sourcing can be achieved through the establishment of international buying groups and networks.

## 5.4 The Retail Value Chain

To get a bird's eye view of an organisation's operations is the purpose of the value chain model of corporate activities, developed by Michael Porter. Competitive advantage, says Porter, arises out of the way in which firms organize and perform activities. One should keep in mind that in Porter's analysis, retail business activities are not the same as retail business functions.

- Functions are the familiar departments of a retail business and reflect the formal organizations structure and distribution of labour.
- Activities are what actually goes on, and the work that is done. A single activity can be performed by a number of functions in sequence.

Activities are the means by which a firm creates value in its products. Activities incur costs, and in combination with other activities, provide a product or service, which earns revenue. Firms create value for their buyers by performing these activities. The ultimate value a firm creates is measured by the amount customers are willing to pay for its products or services above the cost of carrying out value activities. A firm is profitable if the realized value to customers exceeds the collective cost of performing the activities. There are two points to note here:

1. Customer's purchase value, which they measure by comparing a firm's products and services with similar offerings by competitors.
2. The retail business creates value by carrying its activities either more efficiently than other retail businesses, or combined in such a way as to provide a unique product or service.

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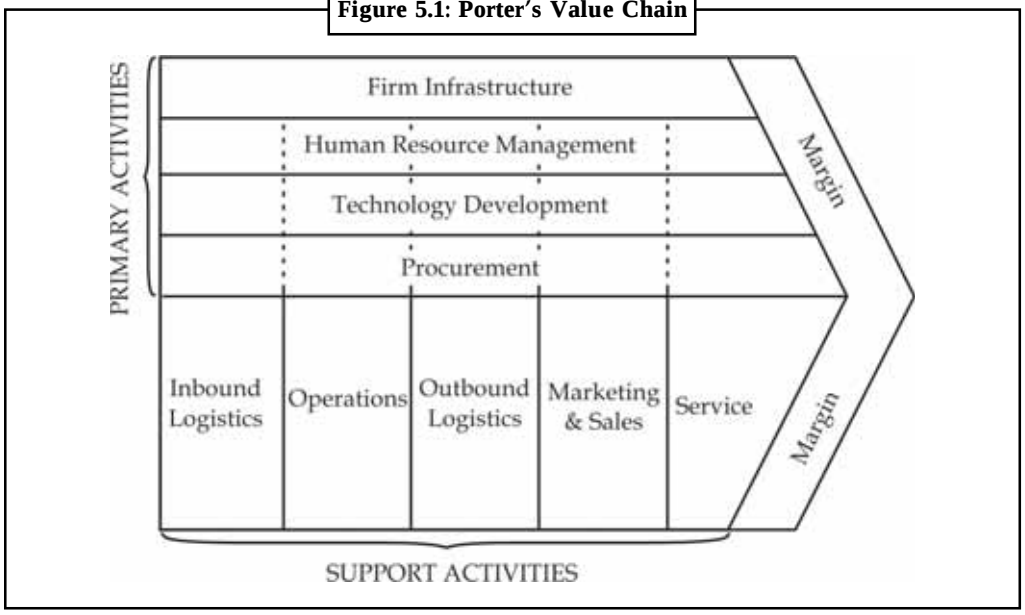
Porter analysed the various activities of an organization into a value chain. Figure 5.1 depicts Porter's Value Chain model.

**Figure 5.1: Porter's Value Chain**




***Source:*** www.12manage.com

This is a model of value activities and the relationships between them.

- Primary Activities are those directly related with production, sales, marketing, delivery and services. The diagram shows five primary activities.
- Inbound logistics are those activities involved with receiving, handling and storing inputs to the production system.
- Operations are those activities which convert resource inputs into a final product.
- Outbound logistics are those activities relating to storing the product and its distribution to customers.
- Marketing and sales are those activities that relate to informing customers about the product, persuading them to buy it, and enabling them to do so.
- After sales services: For many companies, there are activities such as installing, repairing products, providing spares etc.

Support activities are those which provide purchased inputs, human resources, technology and infrastructural functions to support primary activities. Support activities include:

- Procurement refers to those activities which acquire the resource inputs to the primary activities.
- ***Technology development:*** These activities are related to both product design and to improving process and/or resource utilization.
- Human resource management is the activities of recruiting training and rewarding people.
- ***Firm infrastructure:*** The systems of planning, finance etc. are activities which Porter believes are crucially important to an organisation's strategic capability in all primary activities.
- Furthermore, in addition to the categories, described above, Porter identifies three other ways of categorizing activities.

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- Direct activities are concerned with the adding value to inputs.
- Indirect activities enable direct activities to be performed e.g. maintenance.
- ***Quality assurance:*** This type of activity monitors the quality of other activities and includes inspection; review and audit.

Linkages connect the interdependent elements of the value chain together. They occur when one element of the value chain affects the cost or effectiveness of another.

The value chain contains an element of margin. This is the excess of the amount that the customer is prepared to pay over the costs of the resource inputs and value activities. Firms can gain competitive advantage by conceiving of new ways to conduct activities, employing new procedures, implementing new technologies, or using different inputs and by exploiting linkage effectively.

*Caution* A company's value chain is not bounded by a company's border. It is connected to what Porter describes as a value system.

As well as managing its own value chain, a firm can secure competitive advantage by managing the linkage with its suppliers and customers. A company can create competitive advantage by making best use of these links and this means considering the value chain of these suppliers and customers.

The value chain is also a useful model for analyzing a firm's competitive and also further on in the planning process for designing strategies. A firm's value chain is not always easy to identify nor are the linkages between the different elements. However, it is an important analytical tool because it helps people:

- To see the retail business as a whole
- To identify potential sources of competitive advantage.

### Self Assessment

Fill in the blanks:

13. ..... are the means by which a firm creates value in its products.
14. ..... are those activities involved with receiving, handling and storing inputs to the production system.
15. ..... refers to those activities which acquire the resource inputs to the primary activities.
16. A company's value chain is connected to what Porter describes as a ..... .

## 5.5 Summary

- Retailing is the latest buzzword among the business. It is evolving into a global, high-tech business and occupies a pre-eminent position in the economics of all modern societies.
- The Indian retailing Industry is becoming intensely competitive, as more and more players are vying for the same set of customers.
- Strategy planning or formulation of strategy consists of a set of decisions that leads to the development of an effective strategy. We check all the activities related to the internal and external factor those affect directly or indirectly to the organization.

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- Companies need to categorise segments according to their present and future attractiveness and their company's strengths and capabilities relative to different segments' needs and competitive situation.
- Porter suggests that there are five basic competitive forces, which influence the state of competition in an industry.
- Strategic retail planning process divided into the following steps: Deciding the store's mission and objectives, Situation analysis, Formulation of retail strategy, and Implementation and control of strategy.
- International retailing is an essential ingredient for the global economy. International retailing satisfies the increasingly complex and demanding needs of global consumers.
- Retailing is predominantly a domestic market activity. The total business of the vast majority of retailers is done within one particular country and in many cases, within one specific region or district.
- A company's value chain is not bounded by a company's border. It is connected to what Porter describes as a value system.

## 5.6 Keywords

***Activities:*** They are the means by which a firm creates value in its products.

***Intangible resources:*** Factors such as open space, beauty, serenity, wisdom, diversity, and satisfaction that cannot be grasped or contained.

***International retailing:*** Worldwide tendency towards concentration in retailing, create huge buying power in the big international retail chains.

***Retail mix:*** It is the blend of various retail activities that in totally present the whole concept of retailing

***Situational analysis:*** The process of seeking targeted information in a specified area, then providing feedback to the prospect or customer regarding critical information that you learned from them

***Store´s objectives:*** Ends that the store seeks to achieve by its USP and operations.

***Strategy:*** Plan of action or policy designed to achieve a major or overall aim.

***Value chain:*** It comprises all the activities an organisation needs to undertake in order to create or add value to its products or services.

## 5.7 Review Questions

1. "Retailing today is at an interesting cross road." Elaborate
2. "The Indian retail market is quite large but highly fragmented." Do you agree? Justify your answer.
3. Explain the levels at which a retail organisation's strategy is developed.
4. Discuss the retail strategy planning process in detail.
5. Describe the growth strategy used by the retailers to expand.
6. "International retailing is an essential ingredient for the global economy." Substantiate.
7. Retailing is predominantly a domestic market activity. Do you agree with the statement? Why or why not?

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8. State the purpose and concept of Porter's value chain.
9. Explain Porter's Value Chain in detail.
10. "A company's value chain is not bounded by a company's border. " What do you mean by the statement?

### Answers: Self Assessment

1. False
2. True
3. Strategy
4. Business unit/retail format
5. Tactical
6. Mission
7. Capabilities and weakness
8. Retail mix
9. Positioning
10. False
11. True
12. True
13. Activities
14. Inbound logistics
15. Procurement
16. Value system

## 5.8 Further Readings


*Books*

Bajaj, Tuli and Srivastava, *Retail Management*, New Delhi: Oxford University Press

Berman and Evans, *Retail Management: A Strategic Approach*, New York: Macmillan Publishing Company

Lusch and Dunne, *Retail Management*, Cincinnati: South-Western Publishing Co.

*Online links*

http://www.managementstudyguide.com/international-retailing.htm

http://www.netmba.com/strategy/value-chain/

http://www.valuebasedmanagement.net/methods_porter_value_chain.html

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# Unit 6: Store Site Selection

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## Objectives

After studying this unit, you should be able to:

- State the different types of retail locations
- Discuss the steps involved in choosing a retail location
- Realise the methods of evaluating a trading area

## Introduction

A store may have good merchandise, good customer service and good sales promotion, but if the location where retailing has to take place is not proper, the retailer will face several day-to-day selling problems. Location decision is strategic and long term and hence involves a large investment that is irreversible in nature. If a retailer after setting up his store realizes that the location is not proper, he has either to go on suffering losses or close down. In this unit, you will learn why a retailer while making a store location decision has to weigh in not only financial aspects but also technical, commercial, social and political aspects. Poor location results in increase distribution cost, poor marketing response and dissatisfaction among employees, suppliers and customers.

Location decisions ultimately decide the future and overall profitability of the organisation. A good location may not always success, but undoubtedly it is a must for smooth flow of goods and day-to-day operations, such as loading and unloading of goods. In this unit, you will learn how an optimum or ideal location is arrived at.

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The location of stores is a key concern to any retail organisation . . . whether it's your first store or your one hundredth. Spending time and money wisely in the process of site selection is critical.

Newcomers to retail often open shop in a location simply because it is the only vacant space within a stone's throw of their home or office. Knowledgeable retailers, on the other hand, will make a thorough examination of possible locations before signing on the dotted line. They know their investment will be large and they want as reasonable a prediction of success as possible before making a commitment.

## 6.1 Types of Retail Location

Retailers have many store location factors to consider when choosing a place for their business. Here are a few of the more common types of retail locations.

### Mall Space

From kiosks to large anchor stores, a mall has many retailers competing with each other under one roof. There are generally 3 to 5 anchor stores, or large chain stores, and then dozens of smaller retail shops. Typically the rent in a mall location is much higher than other retail locations. This is due to the high amount of customer traffic a mall generates. Before selecting this type of store location, be sure the shopper demographic matches the description of your customers. Mall retailers will have to make some sacrifices in independence and adhere to a set of rules supplied by mall management.

**Figure 6.1: Mall Space - Select City Walk, Saket, Delhi**

(a) Outside View (b) Inside View

### Shopping Center

Strip malls and other attached, adjoining retail locations will also have guidelines or rules for how they prefer their tenants to do business. These rules are probably more lenient than a mall, but make sure you can live with them before signing a lease. Your community probably has many shopping centers in various sizes. Some shopping centers may have as few as 3 units or as many as 20 stores. The types of retailers, and the goods or services they offer, in the strip mall will also vary. One area to investigate before choosing this type of store location is parking. Smaller shopping centers and strip malls may have a limited parking area for your customers.

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### Downtown Area

Like the mall, this type of store location may be another premium choice. However, there may be more freedom and fewer rules for the business owner. Many communities are hard at work to revitalize their downtown areas and retailers can greatly benefit from this effort. However, the lack of parking is generally a big issue for downtown retailers. You'll find many older, well-established specialty stores in a downtown area. This type of store seems to thrive in the downtown setting.

### Free Standing Locations

This type of retail location is basically any stand-alone building. It can be tucked away in a neighborhood location or right off a busy highway. Depending on the landlord, there are generally no restrictions on how a retailer should operate his business. It will probably have ample parking and the cost per square foot will be reasonable. The price for all that freedom may be traffic. Unlike the attached retail locations where customers may wander in because they were shopping nearby, the retailer of a free standing location has to work at marketing to get the customer inside.

### Office Building

The business park or office building may be another option for a retailer, especially when they cater to other businesses. Tenants share maintenance costs and the image of the building is usually upscale and professional.

### Home-based

More and more retail businesses are getting a start at home. Some may eventually move to a commercial store location, while many remain in the business owner's spare room. This type of location is an inexpensive option, but growth may be limited. It is harder to separate business and personal life in this setup and the retailer may run into problems if there isn't a different address and/or phone number for the business.

*Case Study*

## Case: Mall Culture and its Place in the Indian Environment

Indians are no longer afraid to dream. Why, some farmers in Maharashtra got together to float a company to build a special economic zone out of their farmlands. In Punjab, a few aggressive farmers have dared to take on the retail might of the likes of Reliance, and Soubhagya, with their very own retail ventures.

This in a nutshell, is the developing Indian retail story that is luring investors, domestic and foreign, to make a pitch for a portion of the great Indian market , its growing and ever-hungry consumers, and their apparently insatiable demand for all the good things in life — from groceries to vegetables to fancy gadgets to fancier cars . The purchasing power comes from the growing industry and services sectors, and a small section of the rich agrarian buyers.

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If one looks at Gurgaon, adjacent to the union capital of New Delhi, any weekend presents a chaotic picture with traffic congestions and huge crowds of visitors crowding the twenty odd big malls that it houses and this is only Gurgaon. At the other end of Delhi in the East is Ghaziabad in Uttar Pradesh which also boasts sprawling malls.

Sales and bargain deals, attractive prizes, and schemes are the sure fire success formulae that the shopkeepers and showroom and super bazaars use to lure visitors in huge numbers. Malls are a mega hit.

And in fact, it is the semi-urban areas, small towns and cities, described as Tier II and Tier III towns (say Amritsar or Moga in Punjab, or Indore in Madhya Pradesh, or Nagpur in Maharashtra, or Pune for that matter) that are powering the retail revolution which is sweeping the urban and rural areas. Malls, the temples of consumerism are cropping up everywhere. These malls have changed the way people are shopping. They are teaching them how to appreciate the good things of life. 'Comfort', 'style', 'convenience' and 'cool', are only some of the words used by the shoppers introduced to the mall culture.

And no one is complaining. Not the mall owners, not the shopkeepers, and certainly not the marketing men and women of the big brands. Malls are the battlegrounds where the brands, small, medium and big, the known, the not-so-well-known and the wanna-be ones, fight it out for the consumer's attention. And the consumer is 'loving it' and asking for more.

Yes, this is one culture that consumers are happy about. So happy that no one seems to mind the 'unplanned expenditure' incurred by an outing to such an enticing place. They enjoy air-conditioned comfort, availability of a range of merchandise under one roof, and a one-stop family entertainment arena.

While the consumer is thus slowly getting hooked onto the mall culture, the owners of the malls are hardly complaining. Actually, they are busy planning the erection of new malls, and the more the merrier seems to be motto of the moment. Given the rate at which malls are coming up, the commercial as well as residential real estate business is spiraling upwards. The range and scope of the economic activity generated from mall culture promises many things to many people.

Other than offering shoppers more value for money, the scale of operations generates employment opportunities, direct and indirect, for thousands of people.

India was to have some 350 malls out of which nearly 250 were planned in tier II and tier III towns, taking this revolution further. Now there is a new association of big brands that has come together to give brand loyalists something to cherish, aspire for, and much, much more. Gurgaon alone hopes to play host to some 150 odd malls.

But are all the investors who rushed into the mall business happy? Are the returns coming in? Going by the mall traffic on weekdays, this seems highly unlikely. Barring the ones that have hit the big time and built a stable, loyal customer base, the shop owners and showroom managers are worried. Worried, as the Indian customer is yet to vote for malls when it came to making concrete purchases that translate into turnovers and profits. He still votes for the friendly, neighbourhood 'kirana' stores when it comes to groceries, and for the shopping complexes where he has been shopping all his life.

For the big buyers, say for weddings, or corporate purchases, the preferred venues are still the traditional markets like the Johari Bazar in old Jaipur city where bargaining still rules. Trust and faith still matter the most. Mall owners and shop owners in the malls, wish that all visitors (often a visit to a mall is just seen as entertainment) would turn into customers.

*Contd...*

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It's no surprise that more than half of the malls report substantially poor occupancies, resulting in a depression in rentals.

The investors are not the only cribbers. Town planners are at their wits' end trying to figure out where to fit in all the traffic and how to cope with the pressures on infrastructure that is already under severe pressure. If power is a perpetual problem, then parking blues refuse to go away, what with the addition of several thousand new vehicles adding to the Indian roads each day.

These are the problems that any politician, economist or administrator laments about as India drives along the development superhighway, punctuated with modern marvels – designer glass structures that seem to touch the skies, and a dazzling display of the fierce battle of brands.

***Question:*** Do you think malls will dominate the retail scene in future in India? Are they the best retail locations?

***Source:*** www.chillibreeze.com

### Self Assessment

State whether the following statements are true or false:

1. Usually rent in a mall location is much higher than other retail locations.
2. In a downtown retail location, there may be less freedom and more rules for the business owner.
3. The retailer of a free standing location has to work at marketing to get the customer inside.

## 6.2 Steps Involved in Choosing a Retail Location

Selection of location for constructing a store can be solved in the following four stages:

1. Home country Vs abroad
2. Selection of the region
3. Selection of the locality or community
4. Selection of the exact store

### Home Country vs Abroad

This decision relates to deciding whether the proposed store should be set up in the country or abroad. Today, in order to avail some low-priced inputs like cheap labour, cheap merchandise, less taxes, etc., Indian companies have started venturing into other countries for retailing, marketing, acquisition and even research and development.

*Example:* There is a long list of Indian retail units abroad; however, most of the stores deal with Indian foods, spices, juices and pickles.

Therefore, if the management has taken a decision to set up its retail store abroad, the first step is to decide upon a particular country. This is crucial because due to LPG (Liberalization, Privatization, and Globalization) drive globally, every country is eager to attract foreign capital

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with a unique set of offering. The following key factors should be considered while deciding upon the name of a country:

1. Political factors like political policies and political stability
2. Trade barriers
3. Synergy
4. Economies of scale
5. Regulations
6. International competition
7. Incentive

### Selection of Region

Generally, a country is divided into regions on the basis of directions (east, west, north and south) or political boundaries. Therefore, after selecting the country, the second step is to decide on the right region based on comparative cost advantages available out of the possible regions.

*Notes* India has twenty-eight states and seven territories. To decide on where to set up a store is not an easy task. A retailer has to critically analyse each state or study the country under its four major divisions, viz, Northern, Southern, Western and Eastern. If the retailer want to set up say, in the northern region, then is has to select a particular state, viz, Haryana, Punjab, Delhi, Rajasthan, UP, Uttranchal, HP or J&K.

The factors influencing such selection are:

1. Availability of merchandise
2. Proximity to the market
3. Infrastructural facilities
4. Transport facility
5. Climatic conditions
6. Government policy
7. Subsidies and sales tax exemptions

### Selection of the Locality/Community

After selecting the region, the third step in deciding on the store location is to select a particular locality or community within the selected region. It means taking decisions regarding:

1. Urban area
2. Rural area
3. Suburban area

The selection of a locality in a particular region is determined by the following factors:

1. Labour and wages
2. Community facilities

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3. Community attitudes
4. Banking facilities
5. Existence of supporting stores
6. Local taxes and restrictions
7. Water supply
8. Personal and emotional factors
9. Historical issues
10. Traffic flow

### Selection of the Exact Store

The selection of an exact store is the final step in store location decision. A retailer's selection of a particular store is determined by the following factors:

1. Availability of funds
2. Cost of land development
3. Flexibility potential
4. Transport facilities
5. Local laws/by-laws
6. Local taxes, water and fire protection facilities
7. Means of communication
8. Outlook of local people
9. Postal facilities
10. Waste disposal provision

Developing the location plan requires a careful study of potential markets. Market assessment begins by examining all regions or metropolitan areas, then choosing the one that appears to offer the greatest potential. Such a process is known as market selection.

Choices must then be made within the selected region or city. An analysis of the different sub-areas or trading areas, of a city is then conducted. Finally, separate site analyses and evaluations must be made. At this stage, management assesses the cost of land or rents, construction costs, traffic flow, etc. Note that each step in this process is a refinement of the previous one.

**Figure 6.2: Location Plan**

Notes

### 6.2.1 Market Analysis

During the process of market selection, management evaluates a variety of factors in the target regions. These include demographics, economic characteristics, the competitive environment, and the overall potential of the area.

1. ***Population Characteristics:***
   - (i) Total size
   - (ii) Age and income distribution
   - (iii) Growth trends
   - (iv) Education levels
2. ***Labour Availability:***
   - (i) Availability of management candidates
   - (ii) Wage levels
   - (iii) Unions
3. ***Media Mix Issues:***
   - (i) Type of media coverage
   - (ii) Media overlap
   - (iii) Costs
4. ***Economic Characteristics:***
   - (i) Number and types of industry
   - (ii) Dominant industry
   - (iii) Growth projections
   - (iv) Financial base
5. ***Competitive Characteristics:***
   - (i) Saturation level
   - (ii) Number and size of competition
   - (iii) Competitive growth trends
6. ***Location Characteristics:***
   - (i) Number and type of locations
   - (ii) Costs
   - (iii) Access to customers
7. ***Regulation Characteristics:***
   - (i) Taxes
   - (ii) Licensing
   - (iii) Zoning restrictions

Notes

### Index of Retail Saturation (IRS)

One of the more commonly used measures of market attractiveness is the Index of Retail Saturation (IRS). This index is based on the assumption that if a market has a low level of retail saturation, the likelihood of success is higher. In the following formula, a higher IRS indicates a lower level of saturation, thereby increasing the likelihood of retail success.

$$\text{IRS} = \frac{\text{Number of consumers} \times \text{Retail expenditures per consumer}}{\text{Square feet of retail selling space available}}$$

Census data, which is published every five years, can provide information on the number of potential customers in a trading area.

*Task* Take example of any one prime retail location in India and find out about the number of shops at that location, types of shops, and its attractiveness.

## 6.2.2 Trade Area Analysis

A thorough analysis of trade area is necessary to estimate market potential, understand customer profile, competition, develop merchandising plan, and focus promotional activities. Increasingly, retailers are using geographic information system (GIS) software in their trade area delineation and analysis. GIS combine digitized mapping with key locational data to graphically depict such trade area characteristics as the demographic attributes of the population, data on customer purchases, and listing of current, proposed and competitor's locations. Thus, GIS software lets retailers research the attractiveness of alternate locations and see findings on computer-screen maps.

### Market potential

In estimating the market demand potential, retailers consider factors that are specific to their product line. Hence, often there is a variable in the criterion used by retailers for market estimation. Some of the important indicators of market demand are as follows:

#### *Population Characteristics and its Trends*

Population characteristics such as geo-demographics, psychographic, and behavioural characteristics are used to segment markets. Considerable information about an area's population characteristics can be acquired from secondary sources. Retailers can access data regarding population size, population density, and number of households, income distribution, sex, education, age, occupation and mobility. The information on behavioural characteristics can be obtained by carrying out a primary study measuring store loyalty, consumer lifestyles, and store patronage.

#### *Purchase Power and its Distribution*

The average household purchasing power and distribution of household income can significantly influence selection of a particular retail area. Thus, as purchasing power rises, the population is likely to exhibit an increased demand for luxury goods and more sophisticated demand for necessities.

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### *Business Climate*

Retailers should take into account the employment trends of the market because a high level of employment drives up the purchasing power. It is in the interest of retailers and developers to determine which geographical areas are growing rapidly and why.

### *Competition*

The level and nature of competition in an area also influence the selection of a particular retail location. On the basis of levels of competition, trade area can be classified into three types:

- Saturated
- Under-stored
- Over-stored

A saturated trade area offers customers a wide variety of merchandise, which also ensure impressive profits for retailers in the market. Customers tend to prefer these areas because of the variety of merchandise offered and competitive pricing. Therefore, retailers who find location characteristics compatible with their marketing mix prefer to establish their stores at such locations.

*Example:* Nirula's, McDonalds', Pizza Corner, and Pizza Hut are some examples in this context in India.

Retailers located in a saturated trade area look for head-to-head competition. They develop methods and internal systems that allows them to successfully compete ensures high footballs, which can be converted into sales with sustained marketing efforts.

Under-stored trade area is one that has too few stores selling specific merchandise to meet the needs of the segment efficiently.

*Example:* Subhiksha's early success was based on its location strategy of opening stores in small towns and residential neighbourhoods in Chennai that were relatively poorly served by the existing retailers.

Over-stored trade areas are characterized by the presence of multiple retailers in a specific product category.

*Example:* Nai Sarak in Delhi, which is well known all over India for its educational books and stationery products.

These areas pose great challenges for new entrants in terms of investment and efforts in attracting customers. In India, most of the over-stored trade areas are traditional markets with limited space for new retailers and high rentals.

### Peer pressure and Competition

The importance of support of public and the already existing business in adjoining area is evident from the following example.

*Example:* Sonepat-Delhi national highway is one of the busiest highways in the country; therefore, it has immense economic potential for dhabas. An entire stretch of one kilometer on

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this highway near Delhi has no outlet serving non-vegetarian. Social norms have ensured that non-vegetarian outlets do not set shops on this stretch.

### 6.2.3 Site Evaluation

Site analysis and evaluation is an important step in the selection of a retail location. As a retailer, you have three basic choices for a site:

- Shopping centers/malls
- Downtown core
- Free-standing location

The following chart highlights the strengths and weaknesses of these sites.

**Table 6.1: Site Evaluation**

| Location type | Potential advantage | Potential disadvantage |
|---|---|---|
| Downtown | • Good transit<br>• Established market<br>• Independent focus<br>• Strong business audience | • Perceived parking problems<br>• Possibly in decline<br>• Usually poor evening traffic |
| Regional Mall | • High traffic<br>• Plenty of parking<br>• Established draw<br>• Professional image | • High rent<br>• Very competitive<br>• High building costs<br>• Controlled hours |
| Community Mall | • Trading area defined<br>• Good parking<br>• Community-driven | • Mixed images<br>• Limited market<br>• Limited traffic |
| Strip Mall | • Specialized tenant mix<br>• Visibility<br>• Convenient | • Limited draw<br>• Limited access/transit |
| Free Standing/Big Box | • Lower rents<br>• Value image<br>• Lower overheads | • Unit size (large)<br>• Exclusive to major tenants<br>• Harder to attract customers |

#### Choosing a Shopping Center

- ***Sales Per Square Foot:*** Most shopping centers require tenants to report monthly sales figures. This valuable data makes it easier to compare malls and their rents. It also allows you to make more accurate sales forecasts.

*Example:* Let's say a mall's average sales for women's wear are $300 per square foot and you are contemplating renting a 1000 square foot location. If you perform to the average, you would expect to attain a sales level of $300,000 per year.

- ***Total Rent:*** Traditionally, malls will charge a minimum rent per square foot or a percentage of sales (whichever is greatest), plus a pro-rated common area and maintenance charge (CAM) per square foot leased. CAM expenses are the developer's total cost of maintaining the mall divided by the total allowable space for rent. They usually include the mall's expenses for insurance, real estate taxes, snow removal, maintenance staff wages, garbage removal, promotions, etc.

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- ***Cost Per Shopper Analysis:*** One approach to determining the true "cost" of a location is to calculate the "cost per shopper". The key here is to determine whether the traffic created at a particular site consists of your target customers or a more general customer base.
- ***Responsiveness of the Landlord:*** Directly related to the appearance of a retail location is the responsiveness of the landlord to the individual merchant's needs. Unfortunately, some landlords actually hinder the operation of their tenants' business by restricting the placement and size of signs, renting adjacent spaces to incompatible or directly competing stores, and forgoing maintenance and repairs. By these actions, landlords can cripple a retailer's attempts to increase business. In addition to speaking to existing tenants, you should talk to previous tenants of the same location. Ask them if they would become tenants of this landlord again.
- ***Renegotiating a Lease:*** When times are good and retailers are optimistic, they sometimes sign leases that come back to haunt them in later years. Renegotiating a lease once it has been signed is difficult to do, but attempts to do so must be made under certain circumstances. Prolonged downturns in the economy can result in a drastic drop in sales. This puts occupancy costs in the danger zone where it is no longer profitable to remain in business.

*Caution* Before approaching the landlord for rent relief, you must be prepared with a list of actions you have taken to increase sales and reduce operating expenses. This may include such things as:

- Increased advertising.
- Reduction in wages and staff hours.
- Reduction in all other operating expenses
- Revised merchandise mix to attract new customers.
- Current, professionally prepared financial statements indicating your losses.

With the advent of new retail formats in India such as planned shopping centers and malls emergence of free-standing department stores, hypermarkets, etc., and further development of traditional business districts and other unplanned shopping locations as discussed earlier, a retailer is presented with a wider choice of locations. Consideration of all the options keeping in view the product mix, customer profile, and overall business model presents an enormous challenge. A retailer has to consider the following factors while selecting a site:

- Kind of products sold
- Cost factor
- Competitor's location
- Ease of traffic flow and accessibility
- Parking and major thoroughfares
- Market trends
- Visibility

### Kind of products sold

For stores dealing in convenience goods the quantity of traffic is most important. The corner of an intersection, which offers two distinct, traffic streams and a large window display area is

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usually a better site than the middle of a block. Convenience goods are often purchased on impulse from easily accessible stores. For stores dealing in shopping goods, the quality of the traffic is more important.

*Example:* The emergence of several apparel factory outlets within a short stretch on the Delhi-Jaipur highway, at Mahipalpur market in Delhi, is driven by this factor. Stores carrying specially goods that are complementary to certain other kinds of shopping goods may desire to locate close to the shopping goods stores. In general the specialty goods retailer should locate in the type of neighbourhood where the adjacent stores and other establishments are compatible with his or her operation.

### Cost factor in location decision

Location decision on cost consideration alone is risky. Space cost is a combination of rent or mortgage payment, utilities, leasehold improvements, general decoration, security, insurance, and all related costs of having a place to conduct business operations. Traditionally, the retail community placed great importance on owning the place since this was considered prestigious in the business community. However, there are many periodic retail markets in India, which operate on particular days of the week. The retailers operating in these periodic markets keep shifting from place to place and do not own any property; instead they pay a small rental for their set-up in each market. This supports their model of selling goods at very low margins. With the emergence of new forms of retail formats such as franchising, malls, and department stores the dependence on rent or lease is increasing.

### Competitor's location

The type and number of competitors is another important factor. The presence of major retail centres, industrial parks, franchisee chains, and department stores should be noted. Intense competition in the area shows that new businesses will have to divide the market with existing businesses. If one is not might reconsider that particular location. An excellent location may be next or close to parallel or complementary business that will help to attract customers.

### Ease of traffic flow and accessibility

These two factors are more important to some businesses than others. Consider the nature of the business you are planning to open and your potential customers. Retailers selling convenience goods must attract business from the existing flow of traffic. Studying the flow of traffic, noting one-way streets, street widths, and parking lots, is hence important.

*Caution* The following factors have to be considered: parking availability, distance from residential areas or other business areas, traffic congestion, side of street, width of street, part of the block, and neighbours. Evaluate how accessible the site is for walk-in or drive-by traffic as well as the amount of pedestrian traffic and automobile traffic that goes by the proposed location.

### Parking major thoroughfares

Parking is another site characteristic that is especially a cause for concern in densely populated areas. When evaluating the parking that exists at a retail site, there are two considerations, parking capacity, and parking configuration.

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*Caution* There are several ratios that are generally used to determine the adequacy of a parking lot. While different ratios exist for different types of retailers or service providers the ideal ratio for food stores is in the magnitude of 7-8 cars per 1,000 square feet of food store. This means that a 10,000 sq. ft food stores would have an ideal parking lot that could accommodate between 70 and 80 cars. Parking lots are generally designed on the basis of 400 sq. ft per car.

Thus, the ideal parking ratio for a food store is about 3:1 or 3 sq. ft of parking space for every square ft of store. However, it should be noted that an ideal ratio hardly ever exists in real life—especially in densely populated areas. Obviously, the more suburban the location, the greater the emphasis should be on maximizing parking availability. Urban stores generally get a significant amount of their business from walkers, bikers, and shoppers who use public transportation to and from the store and, thus, can get by with a lower parking ratio.

As to parking configuration there are several consideration to be followed. First a parking lot should be laid out so that the driving lanes are perpendicular to the storefront in order to facilitate shoppers to walk between their cars and the store door. Secondly, food shoppers usually like to park in reasonably close proximity to the main entrance/exit of the store, and within the sight to fit.

### Market trends

Evaluate the community from a broad, futuristic perspective. Local newspapers are a good source of information. Discussions with business owners and officials in the area can also help. Make use of information available through the chamber of commerce. Is the community receptive to change and will a new business be welcome? Does the community depend on a single firm of industry? If so, is it prospering? Is there sufficient demand in the local market to support a new business?

### Visibility

Visibility has a varied impact on a store's sales potential. It is important when a shopper is trying to find the store for the first or second time. Once the shopper has become a regular customer, visibility no longer matters. But consider this fact: one in five families moves every year, which means that some part of a community's population may be 'shopping' in a new store. It follows that, if a store cannot readily be seen, new residents of an area probably will not choose it. Another aspect of visibility relates to travelers and passersby. Generally spiking, a store's trade area accounts for 75-90% of its business. This means that about 10-25% of a store's business comes from beyond its trade area. With respect to this component of a store's business, visibility takes on added importance.

No one type of location is better than the others.

*Example:* Many retailers such as the Delhi-based retailers Mehrasons and Nirula's have been successful in all types of locations.

The following factor can be used to list a particular retail site:

- Is there a need to be in the middle of traffic flow of customers as they pass between the stores with the greatest customer pull?
- Who will be the store's neighbors?

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- What will be their effect on stores sales?
- How much space is needed?

Based on experience the amount of space required can be determined to run the expected level of operations. The amount of space will determine rent. Many retailers need to rethink their space requirements when locating a shopping centre. Rents are generally much higher and, therefore space must be used efficiently.

*Task* Make a report on one of the busiest and costliest retail location in the world - The Times Square.

### Self Assessment

Fill in the blanks:

4. Developing the location plan requires a careful study of ..... .
5. ..... is based on the assumption that if a market has a low level of retail saturation, the likelihood of success is higher.
6. ..... software lets retailers research the attractiveness of alternate locations and see findings on computer-screen maps.
7. A ..... trade area offers customers a wide variety of merchandise, which also ensures impressive profits for retailers in the market.
8. ..... is a combination of rent or mortgage payment, utilities, leasehold improvements, general decoration, security, insurance, and all related costs of having a place to conduct business operations.
9. About ..... % of a store's business comes from beyond its trade area.
10. When evaluating the parking that exists at a retail site, there are two considerations, parking capacity, and parking ..... .
11. For stores dealing in convenience goods the quantity of ..... is most important.

## 6.3 Methods of Evaluating a Trading Area

The trading area analysis takes place after management has selected a specific geographic region or section of a city as a possible retail location. "Trading area" refers to the local geographical area from which a store attracts the majority of its customers.

This territory is sometimes broken down into the "primary trading area", which includes the majority of customers living within a certain range of the store and having the highest per capita sales; and the "secondary trading area", which includes almost all of the customers situated outside the primary area.

*Caution* A typical shopping center may have a primary area that includes 75,000 customers within a five minute drive, and a secondary area housing 150,000 customers within 30 minutes.

Notes

### 6.3.1 License Plate Analysis

One of the most common methods of measuring a trading area with comparable stores is called auto license plate analysis. The license plate numbers of cars in the area under consideration are recorded and cross-referenced with public records to get their registration addresses. By plotting these addresses on a map, you can get a good feel for the general nature of the area.

### 6.3.2 Population Characteristics

Population characteristics are even more critical when evaluating a trading area. As in the larger market analysis, you must understand such features as the population profile, density and growth trends in the target area. Variables such as gender, occupation, education, age, family size and ethnic breakdown are also important. If you sell young children's clothes, you'll want to know the number of local preschoolers. A craft store, on the other hand, will want information about seniors.

### 6.3.3 Potential Sales in a Trading Area

With the right data, you can forecast your potential sales in the trading area. Use this formula:

(Number of households in the trading area) X (Dollars per household spent on your product category)

= (Total market size) X (Your % share of the market)

= Your potential sales

### 6.3.4 Location Based Retail Strategies

As organised retailing grows in India, professional retail entities and managers have several IT enabled techniques now in making a scientific decision regarding locating the retail outlet. Prospective retailers use the latest innovations and methodologies in the location research process to identify and quantify factors that affect store sales performance. Making better site location decisions for the retail sector is about staying ahead of the competition, entering a new market, or just familiarising themselves with the new advancements in methods and technology facing their industry today.

#### Location Quotient

The Location Quotient (LQ) is an index for comparing an area's share of a particular activity with the area's share of some basic or aggregate phenomenon.

The location quotient for a given activity for area is the ratio of the percentage of the total regional activity in area to the percentage of the total base in area. A location quotient is thus the ratio of two percentages and is, therefore, dimensionless.

*Caution* The location quotient for manufacturing in area A is (5/100)/ (150/1000) = 5/15 = 0.333. That is, region A has 5% of the manufacturing employment of the region but 15% of the total employment in all sectors. Based on its share of total employment, we would expect region A to have 15% of the manufacturing employment. It has only 5%, or 0.333, as much as would be expected. We can interpret Location quotients by using the following conventions:

If LQ>1, this indicates a relative concentration of the activity in the area compared to the region as a whole.

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If LQ =1, the area has a share of the activity in accordance with its share of the base.

If LQ<1, the area has less of a share of the activity than is more generally, or regionally, found.

If we have a complete table of location quotients for two employment sectors as below, they can indicate which areas of the map fall into these categories:

**Location Quotient**

| Area | Manufacturing | Services |
|---|---|---|
| A | 0.333 | 0.667 |
| B | 1.400 | 1.100 |
| C | 0.750 | 0.750 |
| D | 0.677 | 1.333 |

For manufacturing, the location quotient reveals a concentration in area B and less than expected shares in each of the three other areas. For services, however, the distribution is much less concentrated, with relative concentrations in areas B and D and less than expected shares in A and C. Mapping these location quotients can reveal spatial patterns.

### Other Forms of Location Analysis

Isostante is a term used to refer to the boundary between two market areas served by two market centres with varying prices and transport costs. The Isostante specifies the points with equal delivered prices from both centres. The range of a good refers mainly to the demand side and is defined by the maximum distance consumers are willing to travel (or pay transport costs for) for a good or service at a given f.o.b. price at the point of supply.

### Range and its Dimensions

The "threshold range" is the minimum radius of a market area needed to generate sufficient demand to support the supply of a good. It refers to the minimum (potentially also the maximum) market area which a supplier needs (or can sell to) to make his undertaking viable. More specifically, "given the equilibrium f.o.b. market price, the threshold range represents the distance to the perimeter of an area enclosing the minimum level of aggregate demand (or a minimum population) which is sufficient to permit the commercial supply of the good. This specifies an area that permits only normal profits to be made."

### Location in Metros – The Areas of Organised Retail Growth

The emergence of the industrial city, a product of capitalism, resulted in lower transportation and communication costs for entrepreneurs who needed to interact with one another; hence, most commercial and industrial enterprise is concentrated in and around the most accessible part of the city – the Central Business District (CBD). Retail firms especially are attracted to cities and thus aid in the city's growth because of two opposing forces. These forces are scale of economies and transportation costs. Two types of agglomeration economies account for city growth: Localisation economies refer to declining average costs for firms as the output of the industry of which they are a part of, increase. Urbanisation economies are referred to declining average costs for cities, as firms increase their levels of activity. These dimensions of growth in the Indian context are clearly visible in metros and therefore the growth of organised retailing in the metros has been growing accordingly.

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Accessibility to employment and services, and general supply and demand factors that impact bid prices, influence residential location decisions.

### Nature of Metro Development

Because of automobile-based inter-urban dispersal, the city has evolved into a restructured form called multi-centered metropolis. Classical models cannot accommodate this new reality easily. The rapid spread of urban India owes much to the nature of the radial and circumferential road network, which results in near equal levels of convergence time across the metropolitan area, destroying the region wide advantage of the CBD. Low housing interest rates reinforced the trend towards single-family housing in the suburbs. Intercity neighbourhood redevelopment involves gentrification - property upgrading by high income settlers that frequently results in the displacement of low-income residents.

Jobs are moving out with modern technology and development, and so are shopping centres and entertainment. The need for the city, as far as the middle class is concerned, has diminished. The suburbs create most new employment opportunities matched to the work skills of inner city residents. This is known as the spatial mismatch theory. Thus, the poor are faced with the problem of either finding work in a stagnating industrial area, the inner city, or commuting longer distances to keep up with the dispersing job market through reverse commuting. This also has an influence on the location of the retail outlets. The nature of the target segment of the retail outlet therefore determines the location of the outlet.

Locational patterns of cities include: transportation cities aligned along transportation routes and at junctions of different types of transportation; specialised function centres that develop around a localised physical resource; uniform pattern of centres, referred to as central places that exchange goods and services with their hinterland. Central-place theory emphasises that cities perform extensive services for their hinterland. Business conducted totally within the hinterland is called settlement-forming trade. Activity that is directed to outside markets is called settlement-building trade. Business conducted with residents of the centre is called settlement-serving trade. It should be clear, what is the nature of the store that we have, in order to locate the store accordingly.

### Development of Central Places

Central places serve large areas around the city. These areas are called hinterlands, tributary areas, trade or market areas, or urban fields. Areas of Dominant Influence (ADI) also called daily urban systems, is that area that describes the extent of the social, economic, and cultural ties between a city and its tributary region. Newspaper circulation and commuting are conceptually good indicators. People in the tributary area, look to the regional newspaper for information on sales and social events or to the city as an employment location. A good measure for locating outlets is to use this movement of people.

*Caselet*

**Case: Retail Buzz in South**

Chennai and Bangalore have witnessed the highest high-street rental growth across India, according to a retail survey by real-estate services firm, Cushman & Wakefield. Banjara Hills in Hyderabad has seen the highest increase in annual rental growth at 114 per cent over last year, while Nugambakkam/Khader Nawas Khan Road in Chennai witnessed

*Contd...*

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rental growth of 106 per cent. SP Road/Begumpet in Hyderabad and Koramangala 80 Feet Road in Bangalore have seen 100 per cent and 92 per cent growth respectively.

Mr Rajneesh Mahajan, National Head, Retail, Cushman & Wakefield India, says, "The economic growth in southern India has provided a large consumer base with increased spending power. The retailers are enjoying better revenues in these markets not only from the existing retail destinations but also in the suburban locations. As the store revenues become comparable to Delhi and Mumbai, the demand for retail real estate would push the prices closer to these two markets."

Banjara Hills and Jubilee Hills, though traditional markets, are preferred by new-age retailers; demand for space here far supersedes the supply. Begumpet witnessed cent percent increase in rentals over the last year, indicating strong demand dynamics.

***Source:*** thehindubusinessline.com

### Self Assessment

State whether the following statements are true or false:

12. A territory can be broken down into primary trading area and secondary trading area.
13. Population characteristics are very critical when evaluating a trading area.
14. Location Quotient is an index for comparing an area's share of a particular activity with the area's share of some basic or aggregate phenomenon.
15. Isostante is a term used to refer to the boundary between two market areas served by two market centres with similar prices and transport costs.

## 6.4 Summary

- A store has good merchandise, good customer service and good sales promotion, but if the location where retailing has to take place is not proper, the retailer will face several day-to-day selling problems.
- In this unit, you have learnt why a retailer while making a store location decision has to weigh in not only financial aspects but also technical, commercial, social and political aspects.
- A good location not only reduces distribution cost to a considerable extent but also attract or attractive pricing, every retailer has to compete with three success elements: location, location and location.
- Location decision ultimately decides the future and success, but undoubtedly it is a must for smooth flow of goods and day-to-day operations, such as loading and unloading of goods. In this unit, you have learnt how an optimum or ideal location is arrived at by various measures.
- Trading area evaluation methods are: license plate analysis, population characteristics analysis, and potential sales analysis.
- The Location Quotient (LQ) is an index for comparing an area's share of a particular activity with the area's share of some basic or aggregate phenomenon.
- The location quotient for a given activity for area is the ratio of the percentage of the total regional activity in area to the percentage of the total base in area.
- Location also plays an important role in determining franchisee site-selection decision.

Notes

## 6.5 Keywords

***Free Standing Location:*** Type of retail location is basically any stand-alone building

***Index of Retail Saturation:*** It is a measure of market attractiveness that is based on an assumption that if a market has low level of retail saturation, the likelihood of success is higher.

***Isostante:*** A term used to refer to the boundary between two market areas served by two market centres with varying prices and transport costs.

***License plate analysis:*** The license plate numbers of cars in the area under consideration are recorded and cross-referenced with public records to get their registration addresses.

***Localisation Economies:*** Refer to declining average costs for firms as the output, of the industry of which they are a part of, increase.

***Location Quotient:*** An index for comparing an area's share of a particular activity with the area's share of some basic or aggregate phenomenon.

***Strip mall:*** A shopping mall consisting of stores and restaurants typically in one-story buildings located on a busy main road.

***Urbanisation Economies:*** Refer to declining average costs for cities, as firms increase their levels of activity.

## 6.6 Review Questions

1. State the different types of retail store locations. Also state the pros and cons of each.
2. Discuss the factors that affect the retail location decisions.
3. Compare urban areas, rural areas and suburban areas, as retail locations.
4. Explain the concept and need of trade area analysis. What does it constitute?
5. Discuss the factors instrumental in choosing a shopping centre.
6. What do you mean by Location Quotient? How does it help?
7. Evaluate metros as a location for major retail ventures.
8. "Developing the location plan requires a careful study of potential markets." Why is this so?
9. Compare and contrast downtown areas and malls as potential retail locations.
10. Why for some retail stores, quantity of traffic is most important?

### Answers: Self Assessment

1. True
2. False
3. True
4. Potential market
5. Index of Retail Saturation
6. Geographic Information System

Notes

7. Saturated
8. Space cost
9. 10-25
10. Configuration
11. Traffic
12. True
13. True
14. True
15. False

## 6.7 Further Readings


*Books*

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Gibson G. Vedamani, *Retail Management*, Mumbai: Jaico Publishing House

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http://www.siteselection.com/issues/2012/mar/sas-retail-centers.cfm

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# Unit 7: Merchandise Management

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## Objectives

After studying this unit, you should be able to:

- Define merchandise and merchandising
- Discuss methods of merchandise presentation
- State the assortment planning process

Notes

- Explain the concept of inventory
- Identify the pricing objectives ad factors that affect pricing
- State the concept of price sensitivity
- Discuss various pricing strategies
- Explain the concept of psychological pricing and mark-up and mark-down strategies

## Introduction

The efficiency of a retail store is based on the retailer's ability to provide the right goods of good quality to the consumer, in the right quantity, at the right place and at the right time. The entire process of retailing depends on efficient inventory management. In this unit, you will learn to plan merchandise and merchandise budget.

In the large retail store, we find a dizzying array of goods to clothe our bodies, decorate our homes and entertain our families. All of this merchandise comes in a variety of sizes, colors, makes and models. Bringing it all together requires the successful coordination of numerous individuals and divisions, including buyers, warehouse employees, financial staff, store operations, etc.

Yet, merchandising takes top priority. It doesn't matter how efficiently the other departments are operating. If merchandising is not firing on all cylinders, the company merchandising is not firing on all cylinders, the company cannot succeed.

The merchandise management process allows the retail buyer to forecast with some degree of accuracy what to purchase and when to have it delivered. This will greatly assist the company in attaining its sales and gross margin goals. Buyers must rely heavily on historical sales data, coupled with personal experience and their own intuition about market trends.

## 7.1 Meaning

Merchandise refers to the goods bought and sold in business. Merchandising refers to the activities aimed at quick retail sale of goods using bundling, display techniques, free samples, on-the-spot demonstration, pricing, shelf talkers, special offers, and other point-of-sale methods. According to American Marketing Association, merchandising encompasses "planning involved in marketing the right merchandise or service at the right place, at the right time, in the right quantities, and at the right price."

### 7.1.1 Retail Merchandising

Retail Merchandising refers to the various activities which contribute to the sale of products to the consumers for their end use. Every retail store has its own line of merchandise to offer to the customers.

### 7.1.2 Benefits

- The display of the merchandise plays an important role in attracting the customers into the store and prompting them to purchase as well.
- Merchandising helps in the attractive display of the products at the store in order to increase their sale and generate revenues for the retail store.
- Merchandising helps in the sensible presentation of the products available for sale to entice the customers and make them a brand loyalist.

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### 7.1.3 Promotional Merchandising

The ways the products are displayed and stocked on the shelves play an important role in influencing the buying behavior of the individuals. A merchandiser maximizes the sale of the products by:

- ***Attractive packaging:*** The packaging of the merchandise goes a long way in improving the brand value of the product. A product kept in a nice box would definitely catch the attention of the customers.
- ***Impressive presentation of the Product:*** The display of the products at the retail store must entice the customers. The merchandiser in coordination with the store manager must ensure that the products are according to the season as well as latest trends.

The merchandiser must:

- Source something which is unique and not available at any other retail store.
- Never compromise on quality of the merchandise. Compromising on quality costs later.
- Source merchandise as per the season and climate.

By mid of August and early September, the summer merchandise is generally on a close out and stores begin stocking merchandise for the winter season. Warm clothing, full sleeves apparels, jackets, pullovers start replacing cut sleeves, capris, ankle length dresses, shorts and so on. Colourful clothes dominate the shelves as compared to the subtle colours in summers. The type of product sourced also depends on the climatic conditions of the place.

A Reebok store in Central India or Southern India would stock summer merchandise between April to September whereas a retail store under the same brand somewhere in a cold area would source woollen merchandise along with summer clothing as per the demand of the season.

- ***Unique Pricing (Discounts):*** Attractive prices, discounts, rebates also bring customers to the store.
- ***Promotional schemes, gifts:*** Coupons and attractive gifts make shopping a pleasurable experience for the customers.

### 7.1.4 Merchandising Tips

- The merchandiser must source products according to the latest trends and season.
- The merchandise should be as per the age, sex and taste of the target market.
- Merchandise for children should be in line with cartoon characters (like Barbie, Pokemon, etc.) to excite them.

Creative Portico Pvt. Ltd. sources bed sheets, curtains specially inspired from characters (Disney, Harry Porter, Hannah Montana) - a hit amongst kids. Youngsters prefer funky clothes (colourful T Shirts, faded denims) as compared to professionals who would go for subtle colours. The target market of Zodiac Clothing Company Limited mainly comprises of office-goers and professionals. The merchandise (shirts, trousers, neck ties, belts) is as per the taste of the professionals. Beach house shirts would have no takers in such a store.

- The merchandiser ideally works on the “invariant right” principle. Since most of us are right handed, it is a common tendency that customers entering into retail store would first go towards the right side of the store. The merchandiser should display the unique and expensive collections on the right side of the store to entice the customers.

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- The set up of the store should be such that once a customer enters into a store, he has to walk through each and every department.
- The shelves should be stocked with the latest trends. The merchandise should be well organized on the racks according to their size and pattern.
- It is the key responsibility of the merchandiser to create an attractive display to pull the customers into the store. Once the customer steps into the store, he would definitely buy something or the other.

### 7.1.5 Scope

***Buying/purchasing:*** One begins as a buyer trainee and advances to the level of buyer and beyond.

**Employers**

- Department stores
- Specialty stores (clothing, home furnishings, jewelry, books, etc.)
- Discount stores/mass merchants
- Grocery stores

**Strategies**

- Develop analytical and problem-solving skills to analyze industry trends and sales data in order to forecast and plan for consumer needs.
- Develop organizational skills to oversee the daily operation of your department or store such as monitoring inventory.
- Develop excellent interpersonal skills to work with and motivate sales force.
- Develop excellent communication skills, written and oral, to write reports and to interact with vendors.
- Be prepared to travel frequently in order to visit various markets and search for new merchandise.
- Be able to work well under pressure: A buyer's goal is to always beat the sales and profit record of the last year.
- Be aware that mergers and acquisitions have reduced the number of opportunities in this field.

**Management/administration**

***Store Management:*** One usually begins as an assistant manager and advances to higher level management positions.

- Department stores
- Specialty stores
- Discount stores/mass merchants
- Grocery stores

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### Strategies

- Be prepared to start at the bottom: Most management training programs start their associates on the sales floor.
- Be willing to relocate to take advantage of promotion opportunities.
- Develop excellent interpersonal skills to assist customers and employees and to handle complaints.
- Develop excellent organizational skills to handle the daily operation of your store or department.
- Gain leadership experience through extracurricular activities.
- Be aware of the abundant number of opportunities in this field.

### Area: Sales

Entry-level positions do not require a college degree, but the degree may be necessary for promotions.

#### *Employers*

- Department stores
- Specialty stores
- Discount stores/mass merchants

#### *Strategies*

- A summer or part-time sales job is a good way to gain retailing experience and is often a steppingstone to higher-level positions.
- Obtain a position at a store with a good reputation: You'll learn the most from good management.
- Develop excellent interpersonal skills to interact with consumers and supervisors.
- Develop problem-solving skills to handle customer inquiries and complaints.
- Ask for assignments outside your normal job description.

***Visual merchandising:*** People working in this area are responsible for the overall feel of the store and for creating a pleasant environment in which customers can shop. Visual merchandisers display products favorably within the store and in store windows.

#### *Employers*

- Department stores
- Specialty stores
- Develop excellent interpersonal skills to work with buyers and managers and to implement their input.
- Develop mechanical aptitude to build props or to adjust lighting for displays.
- Be aware that positions in this area are limited.

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**Non-store Retailing**

***Mail Order:*** A mail order house sells to customers through the mail, usually through a catalog.

***Direct Marketing:*** Direct marketers advertise directly to the customer through mail, magazines, radio, or TV to get an immediate response by telephone, mail, or fax.

**Employers**

- Mail order houses
- Advertising agencies
- Magazine, book, and record companies
- TV retailing networks
- Internet marketers

## 7.2 Process of Merchandise Planning

The foundation of this planning process is the six month merchandise plan.

### 7.2.1 Define Your Merchandise Policy

Every retail organization must have a vision in order to provide it's buyers with some insight into the following business components:

- Demographics of current and potential customers.
- Store's image.
- Merchandise quality levels.
- Price point policy.
- Marketing approach.
- Customer service levels.
- Desired profit margins.

This will allow you to develop a clear merchandise policy that outlines buying goals and objectives.

Communicating this policy effectively will not only provide direction, but should also drive all decision making throughout the merchandise planning process.

### 7.2.2 Gather Historical Information

In building your six month plan, the objective is to prepare a month-by-month total dollar-purchasing schedule for the company. Then, repeat this process for the next level of detail (i.e. the departmental level). Depending on the sophistication of company information systems, each department can then be broken down into smaller segment "classes", for which a similar sales plan is prepared.

The first step in preparing these plans is to pull the sales information for the same period last year. Not only should we gather actual sales numbers, but also statistics on returns, markdowns and any inventory carry-over. Unless your store is computerized, detail of this nature will not

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always be available. However, even a manual analysis of total merchandise purchases will provide you with an acceptable level of data, which is far better than having no information at all.

*Caution* Every retail organization must have a vision in order to provide it's buyers with some insight.

### 7.2.3 Perform Qualitative Analysis

Most professionals will agree that the buying process is 90% analytical and 10% intuitive. In other words, you must do your homework to achieve any level of success. But your efforts will be rewarded. As the most critical aspect of a successful operation, buying/merchandise management is what retail is all about.

"Qualitative Analysis" refers to "identifying the proper components in a mixture". In this case, the mixture is the merchandise plan and the components that affect this plan are as follows:

- ***Customer profile analysis***
  - Who are our best customers, and what are their buying behaviors and attitudes?
  - Who do we want our customers to be?
  - Who are our secondary customers, and what should we be buying for them?

  Winning specialty store concepts focus on one "individual" and build their merchandise mix to please this specific shopper. Learn right away that you can't be everything to everybody.
- ***Department analysis:*** To effectively forecast sales and purchase the right product, you need a further breakdown of your store's major departments. For example, a typical family shoe store may have the following departments: men's footwear, women's footwear, children's footwear and accessories. The men's department may be made up of the following subcategories or "classes": dress shoes, sport shoes, boots and slippers.

To plan at the "class" level, you need sales and inventory data at the "class" level.

- ***Key Department Trend:*** The professional buyer is always looking for trends in his market. For example, what is happening in men's footwear? Maybe Western boots are growing in popularity, brown dress shoes have been declining for the last two seasons and black sport shoes are hot with the youth market. Do you always run out of large sizes in slippers weeks before Xmas?

  Trend information is available from a number of sources, including trade publications, merchandise suppliers, the competition, other stores in the U.S. and Europe, and your own experience.
- ***Major Vendor Analysis:*** "Information is power." Even a minor analysis of the performance of your major vendors can identify significant buying issues.

*Example:* In the case of the family shoe store illustration, a closer look reveals that our number one supplier last season did not do us any favours. Although they shipped 98% of what we booked, further analysis indicates late deliveries coupled with styling and fitting

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problems. This resulted in a poor in-season sell through, creating the need for heavy markdowns. Due to poor supplier performance, we ended up with a gross margin of 10% below the store average.

As you can see, this type of vendor analysis is essential in planning your merchandise strategy.

- ***Advertising Review:*** Increased traffic flow often results in higher sales. To this end, advertising and promotions are used to improve traffic levels. The buying and advertising departments must work closely together to ensure the company's investments in this area result in strong performance.

  A promotional calendar outlining event dates, media buys and budgets should be developed and taken into consideration when the merchandise planning process takes place. Buyers may have to coordinate product deliveries with promotions, or vice versa. A successful promotion last year may be hard to equal this season, or, by contrast, a poor promotion may require a higher forecast for this season.

- ***Visual Presentation Analysis:*** People usually respond best to visual stimuli, so product presentation is a major driver of sales. For this reason, another segment of the buyer's seasonal written report describes their thoughts about visual merchandising for the products. This includes the following:

  - Are any special fixtures required?
  - Where should the product be displayed?
  - What type of signage is necessary?

Visual merchandisers work very closely with the buying departments in most chains. Information concerning delivery dates, promotions and product quantities may affect decisions about what to feature in store windows and key display areas. The "visual people" will also handle any special in-store signage that will accompany the product.

*Task* Being an individual of visual merchandising, gather as many as information retating to buying department.

## 7.3 The Assortment Planning

In Assortment Planning we use store grades as a way to reduce the number of decisions we have to make. If we had to plan every store individually we would end up repeating similar assortments many times. Planning at the store grade level allows us to be most effective as a result of our efforts.

What measures should we use to create the grades? Retailers commonly use sales value as the basis for store grading. This allows them to group together similarly performing stores, on the basis that they should have similar ranges assorted to them. As they become more sophisticated many retailers begin to incorporate space into the equation. This often results in a two tier grade system with space sub grades within each sales grade. Superficially, this would appear to be a reasonable approach, and it generally does provide more efficient planning that not using grading at all. However, it places its emphasis on the wrong element - sales.

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When we are making decisions about assortments we are primarily deciding which items will go to which stores in which periods. The first question that we need to ask ourselves is how many items we should be sending to each store or store grade. The factor that limits the number of items is not primarily sales velocity (derived from sales value), but space available for display. Space is a limiting factor in bricks and mortar stores in the same way as production capacity is in manufacturing. If we are going to send similar ranges to groups of stores it makes far more sense to group these by space available for display than by sales value. Of course, this assumes that you have accurate records on space at the product level you wish to grade by, and that you have systems in place to keep these records accurate and up to date. But what about sales? Well, we can allow the replenishment systems to pick up on rates of sale and to refill accordingly. We are not ignoring sales, we are merely saying that there are more relevant measures that we can use for grouping stores for assortment planning.

Of course there may be instances where you have more space in a store than is warranted by the sales performance. This is not a desirable outcome, but is one which does exist from time to time. Where this is the case, you may consider reducing the density of assortment. If this widespread you may want to consider subgrading by ales within space.

Once we have decided which measures to use for grading, we also need to decide at what level we wish to grade. There are 4 factors that will influence our decisions here:

- The availability of data for the selected measure
- The availability of a system that will calculate the grades at the selected level
- The availability of a range and assortment planning system that can use the grades at the selected level
- The ability of our transactional systems to execute plans based on the selected level

It is common for retailers to grade at a department level, but as data becomes easier to access and as planning and transactional systems become more powerful, we are seeing more and more people dropping the level down to category.

### What's So Difficult About Planning Assortments?

With Assortment Planning, the planning exercise is fast, intuitive and efficient. Without automated planning tools, however, doing the entire job manually would inundate your staff with these tasks:

- Manage the end-to-end process of building, managing and planning assortments for new and existing products (and their variations)
- Keep up with assortment hierarchies, including start and end dates and unlimited assortment information
- Track attribute mix versus target
- Analyze best sellers from previous or similar assortments
- Plan unique assortments to accommodate each location's specific situation
- Plan placeholder and proxy items with like history
- Plan and track items using multiple measures and versions and reconcile back to financial goals

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- Plan by average store, cluster or store in your retail channel
- Plan by campaign, book or media drop for your direct channel

## 7.4 Methods of Merchandise Procurement

Merchandise displays are special presentations of a store's products or services to the buying public. The nature of these displays may range somewhat from industry to industry, but all merchandise displays are predicated on basic principles designed to increase product purchases. Indeed, merchandise displays are an integral element of the overall merchandising concept, which seeks to promote product sales by coordinating marketing, advertising, and sales strategies.

Many business consultants believe that small business owners are among the leaders in innovative merchandise display strategies. W. Rae Cowan noted in *Chain Store Age Executive*, for example, that "in many instances, smaller specialty chains are leading the way in store ambience supporting their overall marketing strategy in a broad range of categories from fashion through hardware and house wares and building supplies areas. By their very nature, specialty stores depend on their fixturing to generate a differentiation or niche in the marketplace. And being physically smaller in some cases allows for faster response to market trends and conditions…. Successful retailers today are using their fixturing to productively dispense their merchandise and communicate an appropriate environment on the retail floor."

Merchandise displays generally take one of several basic forms:

- ***Storefront Window Displays:*** These typically open on to a street or shopping mall walk or courtyard and are intended to attract passerby that might not otherwise enter the store.
- ***Showcase Displays:*** These typically feature items that 1) are deemed to be too valuable for display in storefront set-ups, or 2) are niche items of high interest to the business's primary clientele. These display centers are usually located in high traffic areas and typically feature multiple tiers for product display and a sliding door on the clerk's side for access.
- ***"Found-Space" Displays:*** This term refers to product presentations that utilize small but nonetheless usable areas of the store, such as the tops of product carousels or available wall space.

**Figure 7.1: Found Space Display: T-shirts displayed on the wall**

***Source:*** bigapplejazz.com

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Storefront window displays and "found space" displays are particularly popular tools for publicizing and selling sale items.

### 7.4.1 Cross Merchandising

Cross merchandising is simply grouping related products together. There are a few methods that can be used to accomplish this technique in an online setting. Let's take a look at the possibilities.

- Create gift baskets or sets that include multiple related items, such as a skincare basket with a moisturizer, cleanser, toner, and an eye cream. Maybe you sell books. You can create a Reader's Dream set that includes a few bestsellers, a bookmark, and any other related items in your inventory selection. A Writer's Dream set could include a hardbound journal, notebooks for everyday use, stationery with matching envelopes, a selection of note cards, and a nice pen. Whether you sell DVDs, game consoles, fragrances, lingerie, or toys, you can build gift baskets or sets. Customers love sets like these for the holidays. It saves them time and money, because they don't have to shop around for ideas or each piece to make a set. You did the work for them. Dress packages up nicely for the holidays and watch them fly out the door!
- Group similar items on the same web page. A customer who plans to purchase a game console would be a prime candidate for buying games as well. This approach is similar to the gift basket idea, yet products are sold individually. Present related products near each other to suggestive sell additional merchandise. Build your own set or deal works wonders to increase sales by discounting the sale for each additional item purchased in the same transaction.
- Another popular method used by many stores, such as Victoria Secret, offers a related product once an item has been added to the customer's cart. For example, when a customer adds a pair of pajamas to their cart, an offer for matching slippers appears – either on the shopping cart page or through a pop-up. Nowadays, many Internet users block pop-ups, so an ad placed on the actual web page may be a better option.

Cross merchandising is a viable merchandising solution for e-commerce stores. Choose a method that is suited to your unique situation. Grouping merchandise is similar to suggestive selling without the verbal aspect. Customers tend to spend more money when cross merchandise presentation strategies are used.

**Figure 7.2: Cross Merchandising in a Retail Store**

***Source:*** flickr.com

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### 7.4.2 A Customer's Perspective

View the merchandise presentation from a customer's perspective. This can be difficult, because of the hard work that one puts into creating the presentation. Consider a few points:

- Do the merchandise groupings make sense? Are the products related?
- Does the presentation enable you to view each item? Do you know exactly what each presentation is offering? Does each set include product details?
- Are the merchandise presentations attractive, logical and themed?

Use the answers to each of the questions above to determine if your merchandise presentation is both logical and attractive. The presentation should grab your attention and hold it; it should make you want to know more about the products. How well did you do? Don't worry; you can always change you presentations. In fact, change is necessary as product inventory fluctuates, seasons change, and promotional events rotate. Change is great, because it keeps the customer excited about your products.

### 7.4.3 Successful Merchandise Display

Trudy Ralston and Eric Foster, authors of *How to Display It: a Practical Guide to Professional Merchandise Display*, cited several key components of successful merchandise display that are particularly relevant for small business owners. First, displays should be economical, utilizing only space, materials, and products that are already available. Second, displays should be versatile, able to "fit almost anywhere, exhibit almost any merchandise, and convey almost any message. Finally, displays have to be effective. The ideal display, said Ralston and Foster, "is readily visible to any passerby and [should be arranged so that] there is no time or space lag between when a potential buyer sees the design and when he or she can react to it. [The ideal display] also shows the customer what the product actually looks like, not some flat and intangible picture of it. Few other forms of promotion can give such a vivid presentation of both the merchandise and character of a store."

The effectiveness of these cornerstones of merchandising display strategy can be increased by remembering several other tips as well, including the following:

- Allocate merchandise display space and expenditures appropriately in recognition of customer demographics. If the bulk of your business's customers are males between the ages of 20 and 40, the bulk of your displays should probably be shaped to catch their interest.
- Be careful of pursuing merchandise display designs that sacrifice effectiveness for the sake of originality.
- Make certain that the cleanliness and neatness of the display is maintained.
- Do not overcrowd a display. Customers tend to pass over messy, busy-looking displays. Instead, Ralston and Foster affirm that "a display should feature a single item or point of interest…. Every primary article [in a display] must interact with every other so that they all come together as a group. If they don't it will look as if there is not one design, but several.
- Combine products that are used together in displays. For example, pairing ski goggles with other outdoor apparel is apt to be more effective than placing it alone or with some other product that is only tangentially related to skiing.
- Small items should be displayed so that would-be customers can get a good look at them without having to solicit the help of a member of the staff.

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- Pay attention to details when constructing and arranging display backgrounds. For example, Foster and Ralston counsel business owners to "avoid dark backgrounds when customers will be looking through a window, since this makes the glass behave as a giant mirror."
- Merchandise displays can sometimes be utilized to educate customers. A well-conceived display could, for example, illustrate a product use that may not have occurred to most customers. "In addition to selling actual merchandise, display can be used to introduce a new product, a fashion trend, and a new 'look' or idea," explained Martin Pegler in *Visual Merchandising and Display*. "Display can be used to educate the consumer concerning what the new item is, how it can be worn or used, and how it can be accessorized. The display may also supply pertinent information, the price, and other special features."

All of these considerations need to be weighed when putting together a merchandise display. But ultimately, the final barometer of a display's worthiness is its ability to sell products.

### Self Assessment

Fill in the blanks:

1. Buying and ..... department should work closely to increase traffic flow into the store.
2. A collection or a group of various items found in a particular retail store is called ..... .
3. Retailers most commonly use ..... as the basis for store grading.
4. Various merchandise display techniques are intended towards increasing ..... .
5. Premium items like diamond jewellery, perfumes, show pieces etc. are generally put in ..... displays.
6. Grouping of similar products together or close to each other, in a retail store, is referred to as .....

## 7.5 Retail Pricing

Price has always been one of the most important variables in retail buying decision. It is the factor which makes or mars a retail organization. It is also the easiest and quickest element to change. In this unit, you will learn about techniques of pricing of products. You will learn how pricing helps an organization to achieve its objectives. This is particularly significant for new market entrants that need to first establish a brand, and then enjoy increasing profits as the brand gets market acceptability. For a customer, price is the main reason to visit a particular store. In this unit, you will learn about the implications of the pricing decision which a retailer should consider while deciding the pricing for the retail sales.

### 7.5.1 Objectives of Pricing

Pricing decisions are usually considered a part of the general strategy for achieving a broadly defined goal. While setting the price, the firm may aim at one or more of the following objectives:

- ***Maximization of profits for the entire product line:*** Firms set a price, which would enhance the sale of the entire product line rather than yield a profit for one product only. In this process it is possible to maximize the profit for the entire product line.
- ***Promotion of the long-range welfare of the firm can also influence the pricing decision:*** The firm may decide to set a price, which looks unattractive to competitors, and hence, the

entry of competitors can be discouraged for a long period of time. In this way the firm can take a decision for the long-term welfare of the firm rather than the short-term profit maximization.

- ***Adaptation of prices to fit the diverse competitive situations:*** The company may decide to go for different kinds of pricing strategies depending on individual product's product-market situation. The company will try to maximize the profit from a market where it has cash cows and invest in other markets where it has to stay put for long term benefits. It may decide to follow different kinds of product strategy for product portfolio members.
- ***Flexibility to vary prices in response to changing market condition:*** One cannot decide about prices in isolation, as the firm is only a member of the market. So it has to decide on prices in response to changing economic conditions. The macro economic conditions also influence the pricing decision.
- ***Stabilization of prices and margins:*** The firm may decide to stabilize the prices and margins for long term goals and price the products in a different way than they would have done with a profit maximization objective.
- ***Market Penetration:*** The firm may decide in favor of a lower price to penetrate deeper into the market and to stimulate market growth and capture a large market share.
- ***Market Skimming:*** The firm may decide to charge high initial price to take advantage of the fact that some buyers are willing to pay a much higher price than others as the product is of high value to them. The skimming pricing is followed to cover up the product development cost as early as possible before competitors enter into the market.

*Note* Pricing decisions are usually considered a part of the general strategy for achieving a broadly defined goal.

### 7.5.2 Factors Influencing Pricing

Formulating price policies and setting the price are the most important aspects of managerial decision making. Price is the source of revenue, which the firm seeks to maximize. It is the most important device a firm can use to expand its market share. If the price is set too high, a seller may price himself out. If it is too low, his income may not cover costs, or at best, fall short of what it could have been.

The following are the general considerations for formulating pricing strategy.

#### Objectives of Business

Pricing is not an end in itself but a means to an end. The fundamental guide to pricing, therefore, is the firm's overall goals. The broadest of these is survival or assured continued existence. On a more specific level, objectives relate to rate of growth, market share, maintenance of control or ownership and finally profit. A pricing policy should never be established without full consideration as to its impact on the other policies and practices of the firm.

#### The Competitive Environment

An effective solution to the pricing problem requires an understanding of the competitive environment. Under the present competitive conditions, it is more important for the firm to offer the product which best satisfies the wants and desires of the consumers than the one which

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sells at the lowest possible price. As a result, pricing policy should be governed more by the relative than by the absolute height of prices.

### Product and Promotional Policies of the Firm

Pricing is only one aspect of marketing strategy and a firm must consider it together with its product and promotional policies. Thus, before making a price change, the firm must be sure that the price is at fault and not its sales promotion program or the quality of the product or some other element.

### Nature of Price Sensitivity

Businessmen often tend to exaggerate the importance of price sensitivity and ignore many identifiable factors at work that tend to minimize its role. The various factors which may generate insensitivity to price changes are variability in consumer behavior, variation in the effectiveness of marketing effort, nature of the product, importance of after sales service, the existence of highly differentiated products which are difficult to compare and multiple dimensions of product quality.

### Conflicting Interests between Manufacturers and Intermediaries

The interests of manufacturers and middlemen (through whom the former often sell) are sometimes in conflict. This is called vertical conflict. For instance, the manufacturer would desire that the middleman should sell his product at a minimum mark-up, whereas the middleman would like his margin to be large enough to stimulate him to push up the product. The manufacturer may like to control the middleman's prices and even the retail prices; but the middlemen may seek to expand their sales through price-cuts or obtain larger margin than allowed by the suggested prices.

### Routine Pricing Decision

Pricing in practice is often routinized though its extent may differ from company to company and from product to product. For example, the management may prefer to depend on suggested prices, which is a mechanical formula for pricing decisions. The degree of routinization depends on the following factors:

***Number of Pricing Decisions:*** A firm may have to take thousands of pricing decisions on a wide range of products, none of which provides a substantial proportion of sales. In this case it will find that the costs of separate analyses on each product are too high. It would, therefore, find it economical to adopt relatively mechanical routine for pricing.

***Speed in Making a Pricing Decision:*** Mechanical formulae, such as a pre-determined mark-up on full cost, have the advantage of speed, though flexibility and adaptability to special conditions is lost.

***Quality of Available Information:*** If the data on demand and costs are highly conjectural, the best the firm may be able to do is to rely on some mechanical formula such as cost plus formulation.

***Competitive Market:*** If a firm is selling its product in a highly competitive market, it will have little scope for pricing discretion. This will pave the way for routinized pricing.

*Caution* Price is the source of revenue, which the firm seeks to maximize. It is the most important device a firm can use to expand its market share. If the price is set too high, a

seller may price himself out. If it is too low, his income may not cover costs, or at best, fall short of what it could have been.

### Active Entry of Non-business Groups in Pricing Decisions

The government, acting on behalf of the public, seeks to prevent the abuse of monopolistic power and collusion among businessmen. There is a complex body of regulation and even more confusing series of judicial decisions guiding pricing principles in every country. Very often, the government elects to control certain prices. Collective bargaining and strikes by the labor unions, attempt to raise wages. The entry of the government into the pricing process, in alliance with farmers and labor interests, tends to inject policies in price determination.

### Cost Factors in Pricing

Costs have to be taken into consideration like many other important factors. In fact, in the long run, prices must cover costs. If, in the long run, costs are not covered, manufacturers will withdraw from the market and supply will be reduced which, in turn, may lead to higher prices. The point that needs emphasis here is that cost is not the only factor in setting prices. Cost must be regarded only as an indicator of the price, which ought to be set after taking into consideration the demand and the competitive situation. It must be noted, however, that cost at any given time represents a resistant point to lowering of price. Again, costs determine the profit consequences of the various pricing alternatives. Cost calculations also help in determining whether the product whose price is determined by its demand is to be included in the product line or not. What cost determines is not the price but whether the product in question can be profitably produced or not.

For pricing decisions, relevant costs are those costs that are directly traceable to an individual product. In the long run the aggregate revenues from all products must cover not only direct costs but also contribute towards common costs. Ideally, each product should make significant contribution to common costs; but it is not possible to state any general rule for determining satisfactory or unsatisfactory contribution. If factors of demand and/or competition prevent a firm from setting a price for one of its products that will cover direct costs, there may be no alternative but to discontinue the product.

*Did u know?* The government, acting on behalf of the public, seeks to prevent the abuse of monopolistic power and collusion among businessmen. There is a complex body of regulation and even more confusing series of judicial decisions guiding pricing principles in every country. Very often, the government elects to control certain prices.

### Demand Factors in Pricing

Where cost factors are internal in nature, demand based factors are external factors and emerge out of marketing factors. The pricing policy of a firm would depend upon the elasticity of demand as well. If the demand is inelastic, it would not be profitable for the firm to reduce its prices. On the other hand, a policy of price increase would prove profitable if the demand is inelastic. Conversely, if the demand is elastic, it is a policy of price reduction rather than a policy of price increase, which would be profitable for a firm to adopt.

*Task* Prepare a report on Factors affecting Prices: Indian Subcontinent vs. Europe

Notes

### 7.5.3 Price Sensitivity

We have already discussed the demand factor that affects pricing. Demand is based on the consumption patterns of the consumers.

Sensitivity to price change will vary from consumer to consumer. In a particular situation, the behavior of one individual may not be the same as that of the other, and may not follow the 'law of demand'. In fact, the pricing decision ought to rest on a more incisive rationale than simple elasticity. Some important characteristics of consumer behavior are detailed below:

- From the point of view of consumers, prices are quantitative and unambiguous, whereas product quality, brand image, customer service, promotion and similar factors are qualitative and ambiguous.
- Price constitutes a barrier to demand when it is too low just as much as when it is too high. Above a particular price, the product is regarded as too expensive and, below another price, as constituting a risk of not giving adequate value or being perceived as a low quality product. If the price is too low, consumers will tend to think that a product of inferior quality is being offered.
- Price inevitably enters into the consumer's assessment of quality. There are two reasons for this. First, it needs expert knowledge and appropriate equipment to test the quality or durability of some particular products (to say nothing of the time and cost involved in carrying out a proper test), and second, customers tend to look upon price itself as a reasonably reliable indicator of quality. What is costly is thought to be of a high quality. A higher price is ordinarily taken to be a symbol of extra quality, or extra value or extra prestige.

To conclude, in many cases, price is used by the prospective customer as a clue for sizing up the quality of the product. Thus price-quality association is well established.

- With an improvement in incomes, the average consumer becomes quality-conscious. An improvement may, therefore, lead to an increase in demand. If this is so, a time may come when a rise in price results in an increase in demand. This extreme situation may arise if price in increasingly affluent societies comes to serve merely as an indicator of quality.
- Consumers may be persuaded to pay more for heavily advertised goods. Consumers perceive a firm's size, financial power and age as measures of quality. Well-known firms very often assert that by virtue of their reputation they are able to charge 5 to 10 per cent higher than other firms.
- Whether the price is considered a bargain or not would depend upon the average market price of the item, the gender of the potential consumer, and the value of the item to the purchaser. Price reductions tend to be perceived absolutely rather than relatively. This means that the percentage reduction decreases for the item to be considered a bargain as the usual price increases. If a packet of potato chips is considered a bargain by a reduction of 20 per cent, a bargain electric fan may be only 15 per cent cheaper than the standard price. As regarding the gender, it is noticed that men on an average require a greater reduction in prices to be persuaded to believe in the bargain.

In a comprehensive survey of consumer consciousness, it was revealed that the basic postulate of the demand theory, i.e. the consumer has appropriate knowledge of market prices, is not fundamentally wrong.

Notes

### 7.5.4 Pricing Strategies

Price is a highly sensitive and visible part of retail marketing mix and has a bearing on the retailer's overall profitability. Further, pricing itself is an essential part of marketing mix and has its own place in the strategic decision-making process.

#### Demand-oriented Pricing

In demand-oriented pricing, prices are based on what customers expect or may be willing to pay. It determines the range of prices affordable to the target market. In this method, retailers not only consider their profit structure but also calculate the price-margin effect that any price will have on sales volume.

Demand oriented Pricing focuses on the quantities that the consumer would buy at various prices. It largely depends on the preceded value attached to the product by the consumer. An understanding of the target market and the value proposition that they intend to seek is the base to this form of pricing.

Table 7.1 illustrates the working of the demand-oriented pricing method by taking a hypothetical example of Koutons summer launch of T-shirt for teenagers.

**Table 7.1: Unit Price, Market Demand and Profits (Amount in ₹)**

| Market region | Unit price | Market demand (in units) | Total revenue (C1 × C2) | Total cost of unit sold | Total profit (C3 – C4) |
|---|---|---|---|---|---|
| 1 | 8 | 2,00,000 | 16,00,000 | 13,00,000 | 3,00,000 |
| 2 | 10 | 1,50,000 | 15,00,000 | 10,50,000 | 4,50,000 |
| 3 | 12 | 1,00,000 | 12,00,000 | 8,00,000 | 4,00,000 |
| 4 | 14 | 50,000 | 7,00,000 | 5,50,000 | 1,50,000 |

***Source:*** Levy and Weitz (2006) p. 487

The main advantage of demand-oriented pricing strategy is to set the merchandise price per customer response towards the product offered.

#### Cost-oriented Pricing

In this form of pricing policy method, a retailer decides a floor price of the merchandise-a minimum price suitable to the organization to achieve its financial goals. A retailer under this method sets the price to cover production cost, operating cost and a pre-determined percentage of profit. The percentage varies strikingly among industries, among member outlets and even among merchandise of the same retail firm.

##### *The Mark-up Criterion*

The retailer's mark-up percentage or cost plus percentage depends on following considerations:

- Product's traditional mark-up policy
- Competition in the market
- Supplier's guidelines regarding selling price
- Operating expenses of store

Notes

- Rented or own retail store
- Inventory turnover
- Level of customers service offered

**Calculation of Mark-up Percentage**

$$\text{Mark-up percentage} = \frac{\text{Retail selling price} - \text{Merchandise cost (at retail)}}{\text{Retail selling price}}$$

$$\text{Mark-up percentage} = \frac{\text{Retail selling price} - \text{Merchandise cost (at cost)}}{\text{Merchandise cost}}$$

*Example:* A food departmental store desires a minimum 30 percent mark-up at the retail outlet. If a 100 gm butter cake should sell at ₹ 20, what maximum price the store can afford to pay the suppliers?

$$\text{Mark-up percentage} = \frac{\text{Retail selling price} - \text{Merchandise cost (at cost)}}{\text{Merchandise cost}}$$

$$0.30 = \frac{20 - \text{Merchandise cost}}{20}$$

$$\text{Merchandise cost} = 20 - (0.30 \times 20) = ₹\ 14$$

Determination of initial mark-up, maintained mark-up and gross margin: with the emergence various retail formats and enhanced competition, it is not practical for a retailer to sell all the merchandise items at their actual prices. Therefore, retailers compute the initial mark-up, maintained mark-up and gross margin during their normal course of business.

- ***Initial mark-up:*** It is based on the selling price assigned to the merchandise less the costs of the merchandise sold.
- ***Maintained mark-up:*** It is the amount of profit a retailer plans to maintain on a particular sort of merchandise. It is based on the selling price that a retailer intends to get less the cost incurred on goods sold. As maintained mark-ups are concerned with actual prices received, therefore, for a retailer, it is always difficult to estimate in advance.

  Initial Mark-up = Retail selling price initially – Cost of goods sold set for the Merchandise

  Where as

  Maintained Mark-up = Actual selling price a – Cost of goods sold retailer wants for its merchandise

  The point of difference between initial mark-up and maintained mark-up is that initial mark-up percentage depends on planned retail operating expenses, profit, reduction and net sales, whereas maintained mark-up represents some additional costs from original retail values caused by discounts, shortages, inventory theft, mark-downs and added mark-ups. The maintained mark-up percentage can be viewed.

$$\text{Maintained Mark-up} = \frac{\text{Retail selling price} - \text{Merchandise cost}}{\text{Percentage}}$$

- ***Gross margin:*** Gross margin, commonly known as gross profit, is an important performance measure in retailing. It gives the retailer a measure (estimate) of how much

profit it is making on merchandise sales without considering the expenses associated with running the store. In other words, gross margin is the difference between Net sales and the Cost of goods sold.

Gross margin (In ₹) = Net sales – Total cost of goods

### Competition-oriented Pricing

Under this pricing policy, retailers set the prices of merchandise after considering competitor's price rather than demand or cost considerations. A company following this policy may not react to changes in demand or costs till competitors are forced to alter their merchandise price despite no change in demand and sale. The various competition-oriented pricing alternatives are:

- ***Competitive pricing below the market rate:*** It means setting the merchandise prices simply to beat the competitor price by charging a price that is below the prevalent market rate. This policy is advisable only when the retailer follows an optimum inventory plan, procure merchandise at the right time and at the right price to gain the benefits of cash payment, trade discount, bulk buying etc.
- ***Competitive pricing above the market rate:*** This policy allows a retailer to set the merchandise price above the current market rate. This policy seems to be straightforward and simple but must be applied carefully. This policy is suggested to those retailers who have some competitive advantages such as:
  - Excellent consumer service
  - High level of personal selling, delivery and exchanged facilities
  - A stock of well-known brands that are not available to its competitors in the nearby location
  - Attractive, huge and modern retail infrastructure to offer merchandise

  This policy is followed under the following circumstances:
  - When the retailer has no locational advantage.
  - Its sales force is not competent and has little product knowledge.
  - Customer services offered are average
  - It has unimpressive layout and visual merchandising
  - It manufactures labels or merchandise of its own.

## 7.6 Retail Pricing Strategies

Generally retailers identify with a specific market type and streamline their efforts in gaining maximum profit. Pricing for certain types of markets mean that entry is reliant not only on the types of merchandise sold, but the price it sells for. There are three price positions:

- ***Above the market:*** It implies that a retailer can safely sell their merchandise at a price or price higher than his competitors. However, when competitors are located close by, a retailer needs to reply on the perceived quality of their offering to maintain sales.
- ***At the market:*** This is the most common policy as the retailer lowers risk by selling at the same price as surrounding stores. Here the competition is fierce and this may make the retailer adopt a different approaches. There could be value creation through added benefits like services, or price-cutting like two for one etc.

Notes

- ***Below the market:*** This implies that a retailer is prepared to sell merchandise at less than the average price. This is a popular strategy for discount stores and hyper markets formats.

### 7.6.1 Some Key Pricing Related Terms

The various types of pricing are:

- ***Horizontal pricing:*** This practice involves agreements between manufacturers, wholesales and retailers to set prices. Such agreements usually are illegal under Indian sales laws.
- ***Vertical Price Fixing:*** A practice where manufacturers or wholesalers seek to control the retail price of their merchandise through some sort of agreements.
- ***Price Discrimination:*** A pricing practice where different prices are charged from different retailers for the same merchandise and same quality.
- ***Minimum Price Laws:*** These laws prevent retailers from selling certain items for less than their cost plus a fixed percentage to cover overhead.
- ***Unit Pricing:*** The objective of such legislation is to let the customers compare the prices of product available in many sizes. For instance, food and grocery stores must express both the total price of an item and its price per unit of measure.
- ***Item Price Removal:*** A pricing practice in which prices are marked only on shelves or signs and not on individual items.
- ***Price Advertising:*** These are guidelines pertaining to advertising price reductions, advertising prices in relation to competitor's prices.

*Task* Make a brief note on pricing strategy adopted by any one popular Indian retailer.

### Self Assessment

State whether the following statements are true or false:

7. The level of sensitivity to prices would remain same for each customer of a specific retail brand.
8. Price can have a negative effect on demand, in both cases- when it is too high and too low.
9. The reductions in prices are perceived relatively rather than absolutely.
10. Demand based pricing largely depends on the preceded value attached to the product by the consumer.
11. Initial mark up is based on the selling price assigned to the merchandise plus the costs of the merchandise sold.

*Notes* The more frequently affirm must refinance debt, the greater is the risk of its not being able to obtain the necessary financing.

*Task* Analyze the EFT & NEFT transactions of a particular bank.

Notes

*Case Study*

## Case: Bata Rounds off '95 paisa' Price Tag

For decades, it was a price tag that drew instant jokes, sarcastic comments and sometimes even arguments over consumer rights, but ending it all, Bata India has withdrawn its famous 95 paise pricing.

Now Bata chappals, shoes and other footwear are priced sans the 95 paise. Bata prices still stop at '9' (such as ₹ 499), but the two decimal points in the price that made you feel like sheepishly asking the five paise back, are gone.

"I have seen it almost throughout my stint with Bata," a manager of a Bata showroom, who has put in around 40 years with the company, said.

He remembers that Bata sales people would also be curious about the 95 paise tag when they joined the company. They would be later taught at training sessions that it was a strategy to begin sales talk with buyers curious about price like ₹ 299.95.

"It would automatically create interest in the product. And from there salesmen can start their talk," he said. The Bata price also had a psychological impact on the prospective buyers as it fell short of an amount that might have looked like a high price.

Also, the price tag was devised to communicate to customers that Bata values even their five paise. "We used to religiously return the five paise in those days when the coin was available," he said.

There is also an unconfirmed theory that Bata, then headquartered in Kolkata, came up with a price of ₹ 124.95 to avoid an entry tax, which was levied on products priced at ₹ 125 and above.

Bata India officials said the company had decided to do away with the most distinctive pricing in the country because the five paise coins have now gone out of circulation.

"Returning the five paise to customers was becoming an issue. There are people who would insist on getting it back," they said.

But the company did try to keep the price going by trying out various things. "We used to offer customers candies, or told them that for every five paise they did not take back, we would put another five paise and donate the amount to Missionaries of Charity. But we realised later that no such thing was working," they said.

***Question:***

Comment on Bata's earlier '95 paisa' price tag. Are they right in doing away with it? What, do you think, is the reason for doing this?

***Source:*** thehindubusinessline.com

### 7.6.2 Psychological Pricing

Psychological pricing is used when prices are set to a certain level where the consumer perceives the price to be fair. The most common method is odd-pricing using figures that end in 5, 7 or 9. It is believed that consumers tend to round down a price of $9.95 to $9, rather than $10.

Notes

Ultimately, you must take into consideration the consumer's perception of your price, figuring things like:

- ***Positioning:*** If you want to be the "low-cost leader", you must be priced lower than your competition. If you want to signal high quality, you should probably be priced higher than most of your competition.
- ***Popular price points:*** There are certain "price points" (specific prices) at which people become much more willing to buy a certain type of product. For example, "under $100" is a popular price point. "Enough under $20 to be under $20 with sales tax" is another popular price point, because it's "one bill" that people commonly carry. Meals under $5 are still a popular price point, as are entree or snack items under $1 (notice how many fast-food places have a $0.99 "value menu"). Dropping your price to a popular price point might mean a lower margin, but more than enough increase in sales to offset it.
- ***Fair pricing:*** Sometimes it simply doesn't matter what the value of the product is, even if you don't have any direct competition. There is simply a limit to what consumers perceive as "fair". If it's obvious that your product only cost $20 to manufacture, even if it delivered $10,000 in value, you'd have a hard time charging two or three thousand dollars for it – people would just feel like they were being gouged. A little market testing will help you determine the maximum price consumers will perceive as fair.

### Is Psychological Pricing an Effective Strategy?

Price has a psychological value. Buyers will buy a high priced product because they believe that the high price is a good indicator of value. Their perception is not reality based, it is psychologically based therefore buyer behavior is affected by more than the product and price tangibles.

Interestingly, as buyers do more investigation into the product's attributes or the business promotes the product's characteristics more effectively, that product knowledge ('familiarity breeds contempt') enables buyers to make a more rational, versus psychological, buying decision and for buyers, price moves down the value scale.

One use of psychological pricing is in price-ending numbers. Buyers believe that prices ending in uneven, rather than even numbers, (such as, $9.99, $199,999, etc.) are a better deal or a better price than even numbers (e.g. $10 or $200,000). If the products to be priced are to be in a price 'band' (such as on-line auctions, or cars or other sales listings), if the listing price is in the odd range, say $199,000, it will appear in a lower price band than the $200,000 listing and will be viewed as better value. The challenge with this strategy is that products ending in an odd number are also often perceived as being lower in value. Ensure that you chose the right price and the right strategy for your specific product or service.

Another use of psychological pricing is reference price. Reference pricing is when buyers have a psychological response to the price that mirrors the way they view a price's relationship to a specific product. A business could capitalize on reference pricing and position their product amongst high value or luxury items to imply that its product belongs in the same category. Be careful with that positioning strategy, it can backfire if buyers feel that your product doesn't really belong in that category.

For psychological pricing to be an effective price strategy, the product needs to have some characteristics that would appeal to an ego-sensitive buyer. For example, luxury goods are attractive to ego-sensitive buyers. Premium recreational goods, such as boats, are attractive to ego-sensitive buyers. Your strategic planning model must ensure that the pricing strategy selected for your product or service is a best-fit price.

Notes

### 7.6.3 Mark-Up and Mark-Down Pricing

After deciding the price of merchandise, the retailer's next step is to consider whether there is any need to change some price due to reasons, such as changing demand patterns, pilferage, competition and seasonal shift during normal course of business. Price adjustments include either mark-down or additional mark-ups.

#### Mark-down

Mark-down is a most common technique to push retail sales that offers particular merchandise at a price lesser than the merchandise marked price (normal price).

The reasons for mark-down include:

- Overstocking/overbuying
- Season change
- Clear-out shopworn/slow-moving merchandise
- Clear-out old-fashioned/old-trend merchandise
- Generate customer traffic

Mark-down does not always mean that the store is not performing wall, this is a part of doing business and running a retail store efficiently. Sometimes, initially some retailers mark-up their merchandise high enough so that after reductions and mark-down the planned maintained mark-up is achieved. Thus, a retailer's intentions should not be to reduce mark-downs. If mark-downs are too less, it may mean that the retailer is probably charging too low for the merchandise, not purchasing in bulk or not having interest in purchasing a particular merchandise.

#### *Types of mark-downs*

The various types of mark-down of price are:

- ***Temporary mark-down:*** This is a policy of reducing the prices of merchandise for a particular time period due to a particular reason, e.g. mark-down because of clearing-out shopworn/substandard merchandise. Once such merchandise is sold, the product will be sold at the normal selling price.
- ***Permanent mark-downs:*** In such mark-downs price reduction is made for comparatively longer periods, maybe a few weeks, few months or more. Unlike temporary mark-down, where price reduction takes place for a particular cause and price is eventually raised to the original one, permanent mark-down is used to replace the old-quality merchandise with the new one. The reasons for permanent mark-down are:
    - Merchandise if of perishable nature and will be of no use after some time.
    - Old technology goods are to be replaced with latest versions.
- ***Seasonal mark-downs:*** Under such mark-downs, prices are reduced to clear out seasonal retail merchandise. 'Ludhiana woolen sales', for example, in the previous winter season are very common in North Indian states like Haryana, Punjab, Delhi and Western UP, etc.

Notes

### Mark-up

Unlike mark-down where prices are reduced, additional mark-up is intended to increase the retail price above the original mark-up due to certain reasons like:

- When the demand for merchandise offered is exceptionally high.
- There is a monopoly-like situation.
- When competitors are not able to meet the consumer's demand.
- In case private labels are performing well in retail market and have good demand and the retailer likes to have quick returns.

"In today's world of retailing where brands are easily available and competition is becoming tougher, mark-downs are increasingly applied by Indian as well as global retailers rather than mark-ups."

Besides mark-downs and additional mark-ups, a third price adjustment, employee discount is becoming popular in the retail world. Some retail firms, in order to build public image and employees welfare provide additional benefits to their employees besides normal salary and perks by offering them discounts on merchandise buying or inviting them to buy merchandise before offering it to general public by the way of sales.

*Task* Conduct a few interviews of people residing in your locality to find out their views on psychological pricing.

## 7.7 Evaluating Merchandise Performance

Measuring the performance of merchandise is necessary in order to gain an understanding of the products which have performed well and which have not performed as per the target. The performance can be as per plan, below the plan or above the plan.

Inventory turnover, which may also be called inventory or merchandise stock turn or just turnover, is a key to merchandise performance. Inventory turnover measures how long inventory is on hand before it is sold. Items that are on hand a short time have a high turnover those that are on hand longer having a low turnover.

Retailers calculate inventory turnover in several ways:

1. Net sales/average inventory at retail
2. Cost of merchandise sold/average inventory at cost
3. Units sold/verage units in inventory
4. Net sales = turnover * average inventory at retail.
5. Average inventory at retail = net sales/turnover

Turnover is a key to high performance, which means profits in retailing. However, higher turnover will not indefinitely increase profits, and the lowest profits, and the lowest turnover will not necessarily result in the lowest profits.

Rapid turnover enables the retailer to reduce certain expenses. Lower inventories will obviously require less capital, and thus the retailer's interest expenses will be lower. Also associated with

Notes

lower inventories will be lower levels of insurance coverage required, lower inventory taxes on year end inventories and lower cost of space to store the inventory. On the other hand, rapid turnover can increase expense. With similar average inventories on hand, the retailer must order more frequently and in smaller quantities, resulting in higher clerical costs, lost quantity discounts and higher transportation rates.

Success in retail can be measured by the amount of profit generated in relation to the working capital invested i.e. the return on investment. Certain costs in any business are fixed or at least are not easily flexed. Shop rents and head office costs fall into this category. Merchandise margins and product mix, however, are variable and their management can either enhance or destroy profitability.

Many retailers use the performance indicators of gross margin % (after markdown) and weeks cover to measure performance. These are very commonly available but used in isolation from each other, they are of limited value. Gross margin % gives us a measure of reactive profitability without taking into account the costs of stockholding investment. Weeks cover tells us how effectively we turned our stock without informing us about relative profitability.

There are three methods of analyzing merchandising performance:

1. ABC analysis
2. Sell through analysis
3. Multiple Attribute method.

1. ***ABC Analysis: Pareto (ABC) Analysis (a.k.a 80/20 Rule)***

   ABC analysis rank orders merchandise by some performance measure to determine which items should never be out of stock, which items should occasionally be allowed to be out of stock and which items should be deleted from the stock selection. An ABC analysis can be done at any level of merchandise classification form SKU to department.

   ABC analysis utilizes the 80:20 principles which imply that 80% of the sales come from 20% of the products. The first step in the ABC analysis is to rank order SKU's using one or more criteria. The most important performance measure for this type of analysis is:

   ***Contribution margin:***

   Contribution margin: Net sales – Cost of goods sold – Other variable expenses

   The next step is to determine how items with different levels of profit or volume should be treated differently. The buyer may define as A items those that account for 5% of items and represent 70% of sales. B items represent 10% and 20% of sales. C items account for 65% of the SKUs but contribute only 10% of sales and D as those items for which there were no sales in the past season.

2. ***Sell through Analysis:***

   A sell through analysis is a comparison between actual and planned sales to determine whether early markdowns are required or whether more merchandise is needed to satisfy demand. There is no rule which can determine when a mark down is necessary. It depends on experience with the merchandise in the past, whether the merchandise is schedule to be featured in advertising or whether the vendor can be reduce the buyers risk by providing markdown, money, etc.

   If actual sales stay significantly ahead of planned sales, a reorder should be made.

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3. ***Multiple attribute Method:***

This method uses a weighted average score for each vendor. The following steps are followed:

(a) Develop a list of issues to consider for decision making, like vendor reputation, service merchandise quality, selling history etc.

(b) Give importance weights to each attribute.

(c) Make judgments about each individuals brand's performance on each issue.

(d) Combine the importance and performance scores.

(e) Add all to arrive at the brand scores.

## Self Assessment

Fill in the blanks:

12. Retailers follow ..... strategy to cover up initial costs before any competitor enters the frame.
13. Market trends and purchasing power of the buyers are ..... factors that affect pricing decisions.
14. The conflict between manufacturer and middlemen on pricing or any other decision is known as ..... conflict.
15. ..... determines the profits that accrue from various pricing approaches.
16. The policy of increasing prices would be profitable if the demand for the product is ..... .

*Case Study*

## Case: Hughes & Hughes Merchandise Management System

**The Company:** Hughes & Hughes is Ireland's fastest growing, most dynamic book retailer, and the only Irish bookseller to expand into the UK. The company has 12 locations in Ireland, one in London city airport and two at Terminal 5 at Heathrow Airport, employing 260 people. The company has implemented a 600,000 Electronic Point of Sales System (EPOS) Merchandise Management System in line with a change in trading operation where they are moving to a complete central distribution model.

**The Objective:** "We are moving to a complete central distribution model where everything is bought centrally, delivered centrally and fed to the stores from our warehouse, "explains Tony Mc Entee, Managing Director at Hughes & Hughes. "We want to have a single invoice point, single delivery point, reduced administration and the assurance that buyers need to only make one buying decision. We also needed a system that would report instantly on what is selling along with margin being generated. "Hughes & Hughes had previously used a retail system but found that it was not cost effective nor could it expand to keep pace with the company's continued growth and expansion. "We needed a retail solution that was very user friendly with a clearly defined development map," continues

*Contd...*

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Tony. "The chosen retail solution had to benefit the business by providing sophisticated, timely and accurate reporting from the till and delivering an integrated end-to-end solution, ensuring the capacity of the business to react quickly to market conditions."

| Quick Facts | Accreditations | Services |
|---|---|---|
| Datapac is the leading Irish business technologies provider.<br>• 200 employees in Dublin, Wexford, Cork & Belfast<br>• Turnover of 60 million in 2007<br>• Over 1,000 customers entrust their IT support to Datapac | Just to name a few:<br>• IBM Business Partner<br>• Microsoft Gold Certified Partner<br>• Microsoft Small Business Specialist<br>• Microsoft Business Solutions Partner<br>• HP Preferred Partner & ASP<br>• Citrix Gold Solution Advisor<br>• VMware Enterprise Partner<br>• Cisco Select Certified Partner<br>• ISO 9001:2000 | Datapac offer many services including:<br>• Retail EPOS solutions<br>• IT support & maintenance<br>• Virtualization & storage solutions<br>• Imaging & printing solutions<br>• Infrastructure design & delivery<br>• Converged voice & data networks<br>• Citrix & Access solutions<br>• Security solutions<br>• ERP solutions<br>• Computer & printer consumables |

**The Solution:** Hughes & Hughes selected Microsoft Retail Management System from Datapac because of Microsoft's quality and Datapac's expertise and knowledge of the solution. "We wanted a solution that is SQL server based which will integrate simply with our finance, logistics and other critical systems and is largely an out of box solution," says Tony. Hughes & Hughes can carry as many as 100,000 SKU's so stock control had been extremely difficult and time consuming. As part of the solution, Datapac is implementing 50 IBM Surepos Tills to allow both the customer and sales assistants to see the screen with product details. "The Surepos tills are touch screen box units which will allow staff to know what is in stock and be able to access the websites to pick up on titles that we don't stock, also allowing them to look for specific customer requests. They can place orders and take deposits against specific customer orders," says Tony. "The solution also gives us a powerful promotions module so that we can run a wide range of promotions with full tracking and reporting facilities. It will also integrate card payment and gift card management directly through the Hughes & Hughes system which will eliminate using handheld pdqs. This eliminates error and certain levels of potential fraud along with improving our efficiencies in reconciling our cash," continues Tony.

***Source:*** http://www.egyankosh.ac.in/bitstream/123456789/39075/1/Unit-4.pdf

## 7.8 Summary

- Merchandise displays are special presentations of a store's products or services to the buying public. The nature of these displays may range somewhat from industry to industry, but all merchandise displays are predicated on basic principles designed to increase product purchases.
- In assortment planning we use store grades as a way to reduce the number of decisions we have to make. If we had to plan every store individually we would end up repeating similar assortments many times. Planning at the store grade level allows us to be most effective as a result of our efforts.

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- When we are making decisions about assortments we are primarily deciding which items will go to which stores in which periods.
- Pricing objectives are the goals that a retail company wishes to achieve through its pricing policy. Pricing is the factor that makes a customer comfortable to a store.
- Because the retail market consists of competitors, consumers and suppliers, the retailer should have various pricing objectives.
- For an independent retailer, increasing or decreasing prices can be helpful to increase the store's sales but for brands, such price fluctuations can be harmful even to the cost of out of the market.
- In order to develop a pricing policy, retailers should consider several issues like deciding on the target market, the merchandise to sell and geographical factors carefully to sustain their customer base.
- Demand is based on the consumption patterns of the consumers. Sensitivity to price change will vary from consumer to consumer. In a particular situation, the behavior of one individual may not be the same as that of the other, and may not follow the 'law of demand'.

## 7.9 Keywords

***Assortment:*** A collection containing a variety of sorts of things.

***Cross Merchandising:*** It is the technique in which similar items are grouped together.

***Horizontal pricing:*** This practice involves agreements between manufacturers, wholesales and retailers to set prices. Such agreements usually are illegal under Indian sales laws.

***Inventory:*** A company's merchandise, raw materials, and finished and unfinished products which have not yet been sold.

***Mark-down:*** This is a most common technique to push retail sales that offers particular merchandise at a price lesser than the merchandise marked price (normal price).

***Merchandise:*** Goods bought and sold in business.

***Price Discrimination:*** A pricing practice where different prices are charged from different retailers for the same merchandise and same quality.

***Psychological pricing:*** This is used when prices are set to a certain level where the consumer perceives the price to be fair.

***Vertical Price Fixing:*** A practice where manufacturers or wholesalers seek to control the retail price of their merchandise through some sort of agreements.

## 7.10 Review Questions

1. What is the significance of proper merchandise presentation? What is cross-merchandising?
2. What do you mean by assortment? Discuss the assortment planning process in brief.
3. What are the objectives of pricing for any company?
4. Explain the cost and demand factors that affect pricing decisions.
5. Discuss the concept of price sensitivity and its relevance for retailers.
6. Contrast the cost based, demand based and competition based pricing strategies.
7. What is psychological pricing? Determine its effectiveness.

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8. Discuss various mark-down strategies.
9. Explain the process of Merchandise Planning.
10. Being a merchandiser, highlight your experience when you came up with an idea that benefited a company.
11. Elucidate "The merchandise management process allows the retail buyer to forecast with some degree of accuracy what to purchase and when to have it delivered".
12. A food departmental store desires a minimum 25 percent mark-up at the retail outlet. If a 150 gm butter cake should sell at Rs. 20, what maximum price the store can afford to pay the suppliers?
13. Study various factors influencing price and prepare a brief report on it. Which one is most influencing and which one is least?
14. In assortment planning we use store grades as a way to reduce the number of decisions we have to make. Why?
15. Is there any, function of retail strategy other than mentioned in the text?

### Answers: Self Assessment

| | | | |
|---|---|---|---|
| 1. | Advertising | 2. | Assortment |
| 3. | Sales value | 4. | Product purchase |
| 5. | Showcase | 6. | Cross merchandise |
| 7. | False | 8. | True |
| 9. | False | 10. | True |
| 11. | False | 12. | Skimming |
| 13. | External | 14. | Vertical |
| 15. | Cost | 16. | Inelastic |

## 7.11 Further Readings

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# Unit 8: Human Resource Management in Retail

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## Objectives

After studying this unit, you should be able to:

- Describe the significance of human resource management in retail
- Identify different areas of retailing where human resources play a critical role
- Explain the meaning and application of various HR related terminologies

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## Introduction

With growing consumerism, unprecedented awareness and a youth-hefty customer base, India is perceived as 'Most promising land' for the global and domestic retailers. As per A. T. Kearney's Global Retail Development Index (GRDI), India has placed among the one of the topmost destinations for retail investment with a huge potential for consumer goods marketing.

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.

Employment market in India is lacking for skilled man power. The retailing industry is generating huge employment opportunities. The requirements of man power are in the all functional areas. The industry is looking for human resources to see the customers at retail outlets and to motivate them indirectly for more buying. The requirements are also for proper category wise display and layout at products to attract customers. The research personnel are required to know, understand and assess for what customers are looking for in the outlets and out of the outlets. The industry also requires manpower for awakening customers regarding why organized outlets. The industry is looking for human resources instead at man power. The industry will certainly get human resources in near future. The issues relating to job specification job classification, job design, recruitments, and selections, training and development is also becoming important.

In India, sudden and unprecedented growth in organized retailing poses a challenge to human resources development. Therefore, it would be useful to look at the usefulness of HRM in retailing emerging requirements and challenges and measures to improve work culture in Indian scenario.

## 8.1 Human Resource Management in Retailing

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.

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.

### 8.1.1 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

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human resource management is to collectively integrate the capabilities and goals of the employees with the goals of the retail firm.

### 8.1.2 Factors Influencing Designing of Organisational Structure

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

(a) ***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.

(b) ***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 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.

(c) ***Type of Organisation:*** It depends 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.

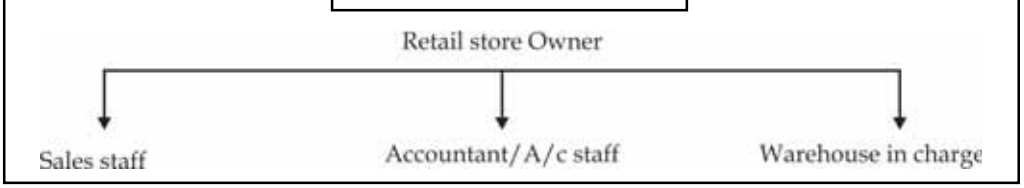
## 8.2 Human Resource for Indian Retail Scenario

India is dominated by a large number of small and independent retailers.

The best example and perhaps the oldest one is our neighborhood Panwala (beetle leaf shop). There can be a host of other examples such as the neighborhood 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.

**Chart 8.1**




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.

## 8.3 Human Resource Aspects in Retailing

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

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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.

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.

### Self Assessment

Fill in the blanks:

1. Tasks are to be grouped into different ..... .
2. Retail ..... can be based on function or products.
3. Small stores usually employ professionals on a ..... basis.
4. While recruiting stagg for retail stores, one must be clear about the candidate's individual ..... and ..... .
5. The first step in effective ..... in retail is to look into the organization of the store.

## 8.4 Human Resource Functions in Retailing

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

### 8.4.1 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.

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### 8.4.2 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.

### 8.4.3 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 where 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.

### 8.4.4 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 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.

### 8.4.5 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

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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.

### 8.4.6 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.

## 8.5 Tasks Performed in a Retail Firm

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

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

### 8.5.1 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.

### 8.5.2 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

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- 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.

*Did u know?* Strategic management is completely under the domain of top management.

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.

### 8.5.3 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

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- Train them
- Plan work schedules
- Motivate people to perform
- Evaluate individual performances

## 8.6 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.

*Caution* Once the retailer is aware about his organisational growth pattern it becomes easy for him to project future growth.

*Note* 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.

### Self Assessment

Fill in the blanks:

6. The first step in task analysis is ..... .
7. ..... states as to what are the exact requirements of a particular job.
8. Strategic management is completely under the domain of ..... management.
9. To make strategies for special occasions like festivals, the store has to do continuous ..... term planning.
10. A ..... may have to adjust his prices based on the market feedback.

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## 8.7 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.

A part time employee has traditionally worked less than a 40 hour work week. Today, though, some employers count employees as full time if they work 30, 32, or 36 hours a week. In fact, fewer required work hours is considered a non-standard benefit in some organizations. Consequently, the definition of part time employee will vary from organization to organization.

Quality part time work is work in which employees are part of the regular workforce, and have access to training, development and promotional opportunities. Part time employees should be seen as valuable contributors, and provided with work that is meaningful and satisfying.

Many employees do not want to work full time, due to family responsibilities, study commitments, the desire for extra leisure time, or as part of a phased retirement plan.

When request for part time work is received, managers should thoroughly consider the request and examine ways in which the request could be accommodated. Being creative and flexible is important. If it is not possible to meet the request exactly as made by the employee, discuss the issue and try to develop an alternative arrangement that suits everyone. Establishing a job sharing arrangement may be a solution if the job needs to be filled on a full time basis. Job sharing is the sharing of one job by two or more employees who work on a part time basis.

If a request is to be refused it should only be on the basis that the job cannot be undertaken on a part time or job share basis, and there must be significant and clear business reasons why full time employment is a reasonable requirement for a particular role. Any decisions made regarding approval of part time work should be documented in writing and a copy provided to the relevant employee. Particularly if a request for part time work is denied, the employees must be provided with the reasons in writing.

In many organizations, one differentiation between full time and part time employees is eligibility for benefits such as health insurance, paid time off (PTO), paid vacation days, and sick leave. Some organizations enable part time employees to collect a pro-rated set of benefits. In other organizations, part time status makes an employee ineligible for any benefits. Part time employees are benefitting from employers' willingness to consider work schedule options such as flexible schedules and job sharing.

One of the keys to successful part time work is acceptance within the workplace for such arrangements. Employees who choose to work part time must continue to be seen by managers and colleagues as a part of the regular workforce. This means part time employees must continue to be included in team meetings where possible, social activities, and communication and consultation processes.

Ongoing training and career development is just as important for part time staff as any other employees, and all part time employees should be considered as valuable contributors who are eligible for promotion where appropriate.

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**How to implement part time work?**

***Work allocation***: In a part time position work needs to be allocated so that it can be done within the hours the employee is at work. When a position changes from full time to part time, the workload of the job needs to be assessed, and some functions responsibilities or projects reallocated.

***Work schedules:*** A work schedule for part time employees should be developed and agreed. This provides employees and the organisation will a clear outline of when the employees will be at work. In organisations where flexible work arrangements, particularly flexible hours, are available to full time staff, these should be made available to part time employees.

***Communication :*** Ensuring part time employees are kept informed of all relevant information is essential. Communication can be through written notes, emails or the phone.

***Conditions of employment:*** Part time employees are entitled to pro rate pay and conditions based on the number of hours worked. Part timers are eligible to be paid for any sick leave or annual leave taken on a day they would normally have worked, or if a normal work day is a public holiday.

*Example of a part time employee:* Mr. Oberoi is a mature age employee who requested part time work to better balance work and care for an elderly relative. He has been with the organisation for many years and management did not want to lose his skills and experience.

## 8.8 Other Important Aspects of Human Resources

### 8.8.1 Motivation

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.

*Did u know?* Every employee of any retail organisation need motivation at all points of time.

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### Abraham Maslow's Hierarchy of Needs Model

**Figure 8.1: Maslow's Hierarchy of Needs Model**

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 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.

*Note* Physiological needs comprises of the basic needs of the human being like food shelter and clothing.

### 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.

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### 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.

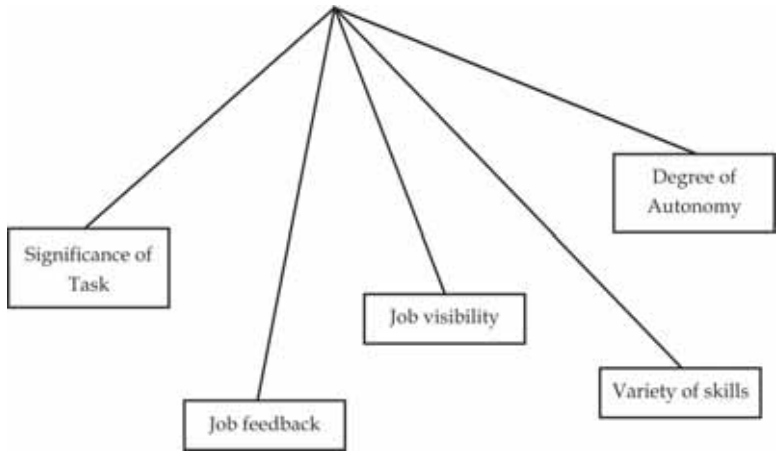
These theories of motivation were propounded based on years of research. However a retail store can adopt any of them or create a hybrid from these depending, upon the ground realities.

### 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.

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.

**Figure 8.2 Modes of Job Enrichment**




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.

*Caution* Each task has its impact on the employees as a whole, even if in an abstract manner.

There are individuals who keep 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.

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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.

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.

### 8.8.2 Concept of Performance Appraisal

#### What is Performance?

What does the term performance actually mean? Employees are performing well when they are productive. Productivity implies both concern for effectiveness and efficiency, effectiveness refers to goal accomplishment. However it does not speak of the costs incurred in reaching the goal. That is where efficiency comes in. Efficiency evaluates the ratio of inputs consumed to outputs achieved. Greater the output for a given input, greater is the efficiency. It is not desirable to have objective measures of productivity such as hard data on effectiveness, number of units produced, or percent of crimes solved, etc. and hard data on efficiency (average cost per unit or ratio of sales volume to number of calls made etc.).

In addition to productivity as measured in terms of effectiveness and efficiency, performance also includes personnel data such as measures of accidents, turnover, absence, and tardiness. That is a good employee is one who not only performs well in terms of productivity but also minimizes problems for the organisation by being to work on time, by not missing days, and by minimizing the number of work-related accidents.

#### What is Appraisal?

Appraisals are judgments of the characteristics, traits and performance of others. On the basis of these judgments we assess the worth or value of others and identify what is good or bad. In industry performance appraisal is a systematic evaluation of employees by supervisors. Employees also wish to know their position in the organization. Appraisals are essential for making many administrative decisions: selection, training, promotion, transfer, wage and salary administration etc. Besides they aid in personnel research.

Performance Appraisal thus is a systematic and objective way of judging the relative worth of ability of an employee in performing his task. Performance appraisal helps to identify those who are performing their assigned tasks well and those who are not and the reasons for such performance.

*Task* Visit nay one retail store in your vicinity. Interview the people working there. Find out their issues, and how they are managed.

## Self Assessment

State whether the following statements are true or false:

11. Every employee needs the same amount and level of motivation.
12. As per Maslow, individuals move to upper level needs only when his lower level needs are satisfied.

Notes

13. Theory y lays emphasis on negative motivation.
14. Productivity implies both concern for effectiveness and efficiency.
15. Appraisals are judgments of the characteristics, traits and performance of others.

*Case Study*

## Case: Implementing a Comprehensive Performance Appraisal System for India's Leading Retail Chain

***About the customer***

The customer is a leading retail chain in India with outlets in all the states and clients across USA, Europe and Japan. A large conglomerate with interests in various ventures, the company pioneered the concept of customer-oriented retail stores in the country. Over the years, it has successfully promoted a number of brands, products and events using innovative tactics. The company had a handful of stores for the first 5 years of its operations; today it is India's largest retail chain with a distinct brand identity that appeals to the Indian youth.

***Customer challenges***

When the customer conducted an internal Employee Satisfaction Survey, the results indicated that employees were highly dissatisfied with the performance appraisal system. The appraisal and goal sheets were manual, resulting in a huge drain on employee resources in terms of time and effort. Additionally, there was no system to post employee KRAs (Key Result Areas). Employees wanted the company to maintain rosters of employee KRAs, with a flexible KRA setting process that allowed for detailed mid-year review and interactions between HR, employees and the respective managers. Thirdly, due to the manual nature of the appraisal process, the company found it difficult to generate MIS reports. Finally, there was a strong need for an online central repository of employee data.

Employee dissatisfaction with these elements was strong and was reflected in rising attrition rate, decreasing employee morale and loss of faith in the company's systems and its ability to manage them.

In consideration of these factors, the customer was looking to implement a complete solution for performance management that could be customized as per its needs and mapped to existing processes. This system would have to be implemented within a short time frame.

***Saigun solution***

The customer evaluated a couple of products (SAP HR being one of them) before choosing Saigon's EmpXtrack for its comprehensive and flexible features that were available at a reasonable cost. EmpXtrack was faster to implement and offered a user-friendly, web-based interface that could be accessed anytime, anywhere. It had ready-to-use and yet, customizable, templates in every module. The product offered a wide variety of options, being available in five different editions, with each edition offering a different set of HR modules. Each edition, in turn, comprised different options based on the number of features available. This variety made EmpXtrack easily configurable and customizable for the customer's needs. Finally, it was cost-effective, offering a flexible pricing model and low front-end cost.

*Contd...*

Notes

The customer chose to implement two modules of EmpXtrack that fit its requirements: the Goal Setting System and the Appraisal System. The solution was required for 500 users and was to be implemented within one and a half months. To meet the stringent implementation deadline, all the stakeholders from Saigun worked in parallel with each other, effectively handling both the qualitative and quantitative aspects.

Both modules were deployed smoothly though there were challenges in collecting the customer's data. This was resolved through constant communication with the stakeholder at the customer site, with Saigun team working relentlessly to collect the customer data till all the requisite information was collected in the format that it was needed in.

***Results***

This engagement was completed within the expected timelines. With the automation of HR processes, the organization and functioning of HR systems have become smoother and timeline-driven, resulting in a huge saving on time, efforts and resources. The solution allows the company to generate any kind of MIS report demanded by the management, and this ready availability of data has had a positive impact on non-HR processes as well. Most importantly, with the Goal and Appraisal Sheet being readily available to all employees and managers, employee satisfaction has increased and employees' faith restored in the company's capability to meet their expectations. The HR team in charge of the project on the customer side has won kudos for completing this engagement within such a short timeframe.

Saigun's product and flawless implementation has resulted in complete customer satisfaction, with the customer opting for three more modules from EmpXtrack – HRIS (Human Resources Information Systems), Employee Self Services and Payroll. This will be a bigger engagement covering 6000 employees.

*"The Saigun team worked within a tight schedule to meet our appraisal cycle requirements. EmpXtrack is easy to use and offered some comprehensive features that were customized to meet our specific requirements. We found the Saigun team very proactive and quick to help during a crucial implementation phase where they provided us with 24/7 support."*

***—HR Manager***

***Source:*** http://www.empxtrack.com/resources/case-studies/implementing-a-comprehensive-performance-appraisal-system-for-India-leading-retail-chain/

## 8.9 Summary

- Human resource is the pivot around which the complete retailing industry rotates. Being a typical service based industry human resources play a critical role.
- There are various factors which influence human resource management aspects in retail. These include scope of operations, nature of merchandise and type of organisation.
- Human resource requirements vary for large retail stores vis-à-vis small retail stores. Human resource needs in retailing also vary as per the tasks needed to be accomplished.
- Tasks can be broadly divided into strategic, merchandising, group management and administrative/legal.
- Performance appraisal is concerned with setting objectives for individuals, monitoring progress towards these objectives on a regular basis in our atmosphere of trust and cooperation between the appraiser and the appraisee.

Notes

## 8.10 Keywords

***Human Resource:*** Is a person or employee who staffs and operates a function within an organisation.

***Job Analysis:*** Refers to various methodologies for analyzing the requirements of a job.

***Job Design:*** The process of putting together various elements to form a job.

***Motivation:*** Internal and external factors that stimulate desire and energy in people to be continually interested in and committed to a job, role, or subject.

***Performance Appraisal:*** The process of obtaining, analyzing and recording information about the relative worth of an employee.

***Task Analysis:*** Systematic identification of the fundamental elements of a job, and examination of knowledge and skills required for the job's performance.

***Training:*** A learning process that involves the acquisition of knowledge, sharpening of skills, concepts and rules.

## 8.11 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 do you mean by motivation? Discuss motivational theories.
5. Discuss the Maslow hierarchy theory in detail.
6. Elaborate the concept of performance appraisal.
7. Differentiate between two theories namely; Theory X and Theory Y.
8. What are the modes of job enrichment?
9. Discuss the concept of motivation.
10. Discuss various issues and concern relating to retail.
11. "In today's Era it is difficult to gain an edge through unique product offerings, since today's customers has easy access to a wide selection of goods." Discuss.
12. Discuss the process of organising a retail firm.
13. Explain how is organization structure is being used by small independents in retail.
14. Being a HR manger in a retaining company, how will you motivate your subordinates?
15. Differentiate between centralization and decentralization concept in retail giving a suitable example from the industry.

### Answers: Self Assessment

1. Jobs
2. Organisation
3. Contract/job rate
4. Goals, temperament

Notes

5. Human Resource Management
6. Task identification
7. Job description
8. Top
9. Short
10. retailer
11. False
12. True
13. False
14. True
15. true

## 8.12 Further Readings


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Notes

# Unit 9: Store Operations and Profitability

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## Objectives

After studying this unit, you should be able to:

- Learn about Activity Based Costing
- Understand the concept of Budgeting and Planning
- Trace out the Challenges Presented by Current
- Know the Practices for Capital Expenditure Budgeting

## Introduction

As management teams strive to shift the emphasis of reporting from a review of historical performance to a more forward-looking exercise that enables management and shareholders to better understand their companies' prospects, the need for sound, accurate capital expenditure planning has grown exponentially—as has the need for software solutions to support the task. But plagued as it has been by lengthy timescales, cumbersome approval procedures, and inaccurate data, capital expense planning has grown to be viewed by many in management as a process that's more trouble than its worth. With a lack of suitable system support for budgeting, planning, and forecasting processes, it should come as no surprise that capital expense planning has received even less attention.

Yet the quality of management information systems is crucial to the delivery of timely and accurate forecasts of capital investments and expenditures such as depreciation, maintenance,

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and insurance. This is a problem because much of today's capital expense planning process relies on a labyrinth of disconnected spreadsheets and manual processes. This doesn't have to be the case. In recent years, a number of software solutions have emerged to support budgeting, planning, and forecasting processes—all of which have brought benefits in speeding the budgeting process, improving collaboration between user communities, and enhancing data quality and reliability.

By extending the capabilities of these solutions, the same benefits can be applied to the more-specialized task of capital expense planning—in the process, making planning and managing large-scale capital projects. This is a far more dependable (and understandable) called process activity based costing.

## 9.1 Store Manager's Responsibilities

The retail store manager is an individual who oversees the daily operations of a retail establishment. That individual is responsible for overseeing the daily work of subordinate employees, ensuring that customers have a pleasant shopping experience and completing many other duties necessary to run the store in an effective and efficient manner.

There are many duties this individual is responsible for completing and each duty in and of itself is vital to the smooth operation of the store. The first main duty of a retail store manager is overseeing the hiring, firing and maintaining of personnel. These individuals are ones who make the store a success and it takes a strong manager to ensure that the perfect individuals are hired to fill sales associate positions, clerical positions and other important job titles. In addition to these tasks, the retail store manager must see to it that each individual is adequately trained to fill their job title and supervise the work that they do throughout their employment at the store.

Another important duty and/or responsibility of the retail store manager deals with the money that comes into the store and goes back out as well. The retail store manager is responsible for handling the turning in of cash at the end of each sales associateÊs day and is required to ensure that all the money is accounted for in the end. In addition, a retail store manager is usually responsible for paying the employees and ensuring that the paychecks match the hours worked by each individual. Meticulous records are needed to be kept by the retail store manager to ensure that all money which has come into the store is accounted for and sales associates and other store employees are paid as they should be.

Inventory is another responsibility of a retail store manager. Since there needs to be goods in stock to sell, it is imperative that the retail store manager check the inventory on a frequent basis and make sure that orders are in when they are supposed to be. In addition to checking retail store stock and ordering goods, the retail store manager also needs to be responsible for paying for the goods which are ordered as well as keeping track of how much is spent on procuring the goods.

One very important duty of the retail store manager relates to customer service responsibilities. From time to time, shoppers within the retail store will ask to speak with a manager whether it be to issue a complaint regarding their shopping experience or provide a compliment to an employee or the store itself. The retail store manager is the higher up individual in the retail ranks who provides an ear to customers who wish to express either their pleasure or displeasure regarding an aspect of the store. Therefore, the retail store manager must be extremely well versed in matters of customer service.

The retail store manager is also the pertinent individual at a retail store who confers with the higher up individuals on the corporate level. Since the retail store manager is on the premises on a daily basis, they are the best individuals to let the corporate office know how that particular

store is doing. This relates not only to sales but to employer-employee relations as well. This individual is also the one who handles occupational safety and employee relations within the store and relates any issues back to the head office.

Lastly, the retail store manager is the person at a particular retail store who may handle advertising and promotional displays. The retail store manager is one who must make their individual store shine when it comes to presenting various promotions in a favorable and enticing manner. Although they may not be responsible for drafting the advertising materials, they should be knowledgeable in how to display the information so that it has the maximum amount of potential possible.

### 9.1.1 What Makes the Perfect Retail Store Manager?

There are a few things which the perfect retail store manager will embody. One positive trait which makes a wonderful retail store manager is an individual who has exceptional conversational skills. Since a main component of a retail store managerÊs daily duties is to interact with customers and employees, it is very important that they know how to converse in such a manner which is courteous yet effective. Looking for individuals with this trait will help interviewers to find the best type of retail store manager.

Past experience is another important aspect which all retail store managers should have. Although past employment may not be the only contributing factor to obtaining the best possible candidate for the job, it still is a highly desirable one. Choosing a retail store manager who has some past managerial experience will equate with less training that is needed and perhaps a more established and useful manager overall.

Another trait to look for in a potential retail store manager is professionalism. A professional store manager not only will benefit the customers who enter the store on a daily basis but will be a good morale booster for other employees as well. A professional retail store manager does not have to be stuffy yet must know when it is the right time for serious behavior and when he/she can take a lighter attitude with both the customers and employees.

A great retail store manager should also have excellent mathematical skills which may benefit the store the most. Since efficient math skills are an important thing for retail store managers to have since they will be working with money on a daily basis, it is good to have this particular quality.

To sum up, these are just some of the many duties and responsibilities which retail store managers must undertake on a daily basis. By understanding these roles one may be better able to tell if the position of retail store manager is right for them.

### 9.1.2 A Sample Profile Sheet of a Store Manager in Retail Industry

**Position Objective and Responsibilities**

**Job Title: Store Manager**

**Reports to: General Manager**

(a) ***Position Objective:*** To direct, promote, and coordinate the store operations in a manner that will optimize the cooperativeÊs market share and savings, improve the cooperativeÊs efficiency, help achieve the cooperativeÊs mission and goals, and result in outstanding customer service.

(b) ***Position Responsibilities:*** The store managerÊs responsibilities involve supervision, marketing, profitability and sales, reporting, purchasing, resale pricing, inventory, service, maintenance, and other duties as assigned by management.

Notes

The store manager will maintain a positive attitude that promotes team work within the cooperative and a favorable image of the cooperative.

(c) ***Supervision:*** Supervision involves establishing and communicating store goals and results to employees, staffing the store and delegating the workload, actively supporting employee growth, and upholding cooperative policies.

*Task* Is there any difference in between the function of store supervisor and store manager?

(A) ***Establish and Communicate Store Goals and Results to Employees***

1. Establish store goals with assistance from the general manager.
2. Conduct store planning and updating meeting within ..... weeks of fiscal year end.
3. Conduct store planning and reporting session within ..... days upon receiving the monthly management report.

(B) ***Staff Store and Delegate Work Load to Meet Market Requirements***

1. Establish and update job descriptions for all positions within the store
2. Recommend selection of employees based on job requirements
3. Staff and adjust work force to fit seasonal needs with a minimum of unproductive labour costs
4. Employ seasonal work-sharing arrangements to minimize layoffs and unemployment compensation costs

(C) ***Actively Support Employee Growth***

1. Schedule and supervise orientation for new store employees
2. Update employees regularly on new product knowledge
3. Identify in writing annually training needed for individual employees
4. Discuss performance ..... with each store employee
5. Complete and administer a yearly merit review with each store employee following management approval
6. Stimulate and develop positive morale and team spirit that leads to high productivity
7. Actively work to increase personal skills and knowledge

(D) ***Uphold Cooperative Policies***

1. Uphold all cooperative policies
2. Ensure that store facilities and equipment meet all federal, state, and OSHA regulations
3. Inform all customers of safe product handling
4. Develop and update a regular maintenance schedule for all store facilities and equipment

Notes

(E) ***Marketing:*** Marketing involves developing and implementing an annual marketing plan, directing store marketing activities, and developing an annual sales and promotion program.

(F) ***Develop and Implement an Annual Marketing Plan***

1. Submit store's marketing plan to the general manager by .....
2. Review the following marketing activities with the general manager by the ..... of each month:
   - Sales call recap
   - Market share report
   - Sales analysis report
   - Strategy review report
   - Competitive pricing analysis report
   - Sales promotional efforts
   - Plans for the following month

(G) ***Direct Store Marketing Activities***

1. Review store sales goals with store employees each month
2. Review the following marketing activities with store employees each month:
   - Sales call reports
   - Market share report
   - Sales analysis report
   - Strategy review report
   - Competitive pricing analysis report
   - Sales promotional efforts
   - Plans for the following month

(H) ***Develop an Annual Sales and Promotion Program***

1. Establish an advertising expense budget at the beginning of each year; review with and get managerÊs approval
2. Hold one major open house sale each year and at least one minor sale each year

(I) ***Profitability and Sales:*** Profitability and sales involves establishing and achieving store profitability and sales goals, and increasing the storeÊs market share through regular sales efforts.

(a) *Establish and Achieve Store Profitability and Sales Goals:* Establish and achieve the profitability and sales goals identified in the annual budget

(b) *Increase Market Share through Regular Sales Efforts*

1. Review sales reports monthly with store employees
2. Review daily reports with salespeople weekly and forward the reports to your supervisor

Notes

3. Submit sales call recap monthly to management

4. Ensure store staff members have current tools to make successful sales presentations

(J) ***Reporting:*** Reporting involves submitting all required operational reports to management within the time limits stated below:

1. Submit daily invoices and sales recaps to management daily with no errors or discrepancies

2. Turn in all product receipts and supporting materials to management daily

3. Submit monthly reports to management by the ..... of each month. Monthly reports should include the following:

- Inventory recap
- Sales promotion recap
- Competitive retail market report: semi-annual
- Employee performance recap
- Facility and equipment maintenance recap
- Review outstanding customer reports including credit, complaints, and requests

(K) ***Purchasing:*** Purchasing involves purchasing products for resale.

1. Purchase products of quality that will result in a minimum of customer complaints

2. Ensure the cost of products will allow for competitive pricing while still meeting the cooperativeÊs financial objectives

3. Make purchases from outside the cooperative system only if they provide a substantial financial advantage

(L) ***Resale Pricing:*** Resale pricing involves establishing prices of products and services.

1. Set prices that are competitive with industry guidelines and local competitors.

2. Set prices that allow the cooperative to meet sales and financial objectives.

(M) ***Inventory:*** Inventory involves managing inventory levels.

1. Develop and maintain a system for monitoring and controlling inventory levels that results in minimal shrinkage

2. Supervise checking of all in-shipments for accuracy against the delivery ticket, proper quantity, price as ordered, and quality

3. Strive to get ..... turns on commodities

4. Clear out obsolete inventories annually

5. Maintain a fiscal year-end inventory not to exceed ..... % of sales

6. Resolve discrepancies in daily inventory report forms within ..... hours

7. Maintain inventories at levels to assure service with a minimum of delivery delays, yet maintain inventory turn goals

Notes

(N) ***Service:*** Service involves providing and promoting the service necessary to meet the store's goals.

1. Ensure all items sold through the store are delivered and installed within ..... weeks of sale or receipt
2. Enforce regulations to ensure an even flow to accounts
3. Introduce new products and programs
4. Suggest and detail benefits and features of related products
5. Handle claims and complaints promptly
6. Supervise quality control to assure maintenance of product specifications
7. Ensure no customer has improperly installed or inefficiently maintained equipment
8. Ensure all services provided assist in achieving store profitability
9. Make arrangements ahead of time for coverage of duties in case of a planned absence, such as vacation, or an unplanned absence, such as illness
10. Lose no customers due to services provided by the store

(O) ***Maintenance:*** Maintenance involves maintaining property, facilities, and equipment.

1. Ensure property, facilities, and equipment remain in good repair and appearance
2. Make recommendations on replacement, additions, or deletions of facilities and equipment when needed and/or economically justified
3. Maintain a clean and orderly store
4. Arrange seasonal displays
5. Lose no customer due to unsatisfactory equipment performance

(P) ***Other Duties:*** The store manager will perform other duties as assigned by management and will enforce and uphold the cooperativeÊs credit policy.

(a) *Perform other Duties as Assigned by Management*

1. Perform duties as requested by management

(b) *Enforce and Uphold the Cooperative's Credit Policy*

1. Make credit terms known to all employees and customers
2. Do not charge to customers on COD
3. Do not extend credit to customers who have not been approved by the credit manager
4. Do not authorize customer charges that exceed set credit limits
5. Keep all personal accounts current

## 9.2 Staffing your Retail Store

Hire and train new employees, schedule salespersons and be the boss of your retail staff. We'll help define the role of store manager, tell you where to find good employees and give advice for conducting the exit interview.

Notes

1. ***When and Who should you Hire?***

As your business begins to grow and evolve, you'll be challenged by the decision to expand. If you are doing all of the work yourself, your first thought may be to hire employees. Before you begin the hiring process, take a moment to determine whether or not you really need the help.

2. ***Time Management***

Are you doing everything you can to make your time as productive as possible in your store? Becoming better organized may eliminate the need for outside help. If you're having trouble managing your time, sign up for a seminar at your local library or college.

Many retail owners try to wear all the hats and then feel they need to hire help. You can reduce some of the workload by outsourcing any part of your business that would be better served by a professional. Book keeping, marketing and information technology are areas that may be outsourced.

Don't expect to have a lot of free time on your hands right away if you hire a new employee. Your new management role will involve a lot of time in the hiring process, the training of the new worker and the additional payroll paperwork. These new responsibilities will require you to have the organizational aspects under control.

3. ***Hiring is Expensive***

Can you afford an employee? Hiring an employee is an investment but for each new hire your retail business makes, valuable resources like time, energy and money are dedicated to the effort. Examine your operating budget. Is there room to pay an extra worker? Keep in mind that you'll need to pay at least the minimum hourly wage and you'll also have payroll taxes and workers compensation to pay.

An extra employee may generate enough new sales to more than compensate the salary of the employee. The additional help could give you a chance to produce more products or serve more customers efficiently. If the added business does not outweigh the minimum salary that you would have to pay, then consider other alternatives to hiring a permanent employee. There are many staffing options available and each has some pros and cons.

4. ***Staffing Options***

(a) *Full-time Employees:* A person who works a set number of hours and generally receives benefits like health, dental and life insurance along with a standard salary is considered full-time. Having someone around full-time can provide a peace of mind knowing someone is minding the store even when you can't be there. There are also many labor laws which govern the full-time worker.

(b) *Part-time Employees:* These workers may offer more flexibility in scheduling and cost less than full-time employees, but you may spend extra time in training more people and if they have jobs elsewhere, worker loyalty may be compromised.

(c) *Temporary Employees:* Staffing agencies usually charge for the convenience of providing full service, as they handle the payroll administration and fringe benefits. However, temporary help may be useful for the short-term projects such as the busy holiday selling season.

(d) *Independent Contractors:* Contractors usually provide work on a project-by-project basis where specialized training or certain skills are required. Fees for work performed are paid based on results and negotiated in advance. Be sure to have a written contract in place before hiring independent contractors. You should also be

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aware of the industry guidelines which determine a workers independent contractor status.

Once your business becomes successful, you will obviously need help on a temporary or permanent basis. Good employees can be a business's biggest asset but the legal and accounting concerns that come with hiring can almost make it seem having employees is more trouble than it's worth. Be sure you understand all the responsibilities before recruiting and hiring.

5. ***Staffing Incentives for Retailers***

In order to provide the "above and beyond" type of customer service a retail store should deliver to be successful, it must begin by creating happy employees. Retailers that develop long-term incentives, perks, and rewards for its staff often see benefits like less employee turnover and better customer service. A combination of all of these can lead to an increase in sales.

Motivational speakers, extra staff development and monetary incentives like paid health coverage are typical for corporations, but what about retailers? What perks can a brick and mortar retailer offer employees?

Hot Topic, a chain store for music-related apparel, reimburses employees for concert tickets. According to the retailer, the shows provide important market research. To qualify for reimbursement, the employee must submit a report on the fashions that the band and the fans were wearing.

6. ***Selection:*** for office administration and support position at the front desk

So far as the staff requirement that is usually required for the running of a store operations can be given as under:

Each of the following positions have had a complete job analysis to determine the core behavioral competencies, work ethic and job tasks necessary for success. The scales have been validated to predict success. Here is a list of the position assessments that are required for the store operations:

- *Receptionist:* for office administration and support position at the front desk.
- *Administrative Support:* for administrative assistants, secretaries, office support personnel and temporaries.
- *Customer Service:* for customer service representatives, order clerks, client services representatives.
- *Hospitality Staff for Restaurants and Hotels:* for front desk personnel, wait staff.
- *Production and Distribution:* for manufacturing and assembly team members, operators, drivers and warehouse personnel.
- *Retail Clerks/Cashiers:* for people who enjoy in a retail store where active selling is not required. A measurement of basic math can be added.
- *Retail Sales Associates:* for retail positions where active selling and customer loyalty is desired. A measurement of Retail Math can be added.
- *Retail Store Managers:* identifies managers who will succeed in small retail stores or department managers in large format stores. A Retail Math module can be added.
- *Health Care:* identifies people who can work directly with or around patients displaying an empathetic, service oriented attitude while providing superior care in such

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positions as nurse, nurse's aides, technician, transporting personnel, and office admitting personnel.

- *Call Centers:* identifies people who can work effectively with customers to produce results for inbound sales, inbound service and outbound sales roles.
- *Help Desk Agents:* for people who will work efficiently to solve technical support problems, exceed customer expectations and work collaboratively with others to resolve help desk issues.
- *Leasing Agents:* identifies people who will have a positive service attitude and influence prospects to rent or lease units in their complexes.
- *Convenience Store Management:* for people who will manage a small team of associates to serve and sell to customers in convenience stores and gas stations.

The selection procedure usually adopted by the retail store operators remains such that it examines the Human Resource (HR) policies adopted by successful retail stores.

It is evident that two retail stores employ different HR policies in terms of recruitment and selection, remuneration and welfare, and training and development for different groups of employees within the same retail store operations. The implementation of the different HR policies for different groups of employees is attributable, first, to the influence of the parent companyÊs environment – socio-economic conditions, characteristics of the top management, corporate strategy and use of technology in the parent company; and, second, to the different types of employee in the two stores. The male and female expatriates among the Parent-Country Nationals (PCNs), and the professionals with high levels of skill, full-time managers and employees with lower level skills, and part-time employees among the Home-Country Nationals (HCNs).

*Task* Describe the following:

1. Managing a store.
2. Duties of a store manager.
3. Responsibilities of a store manager.
4. Staffing for a store.
5. Recruitment and selection of employees for a store.

## 9.3 Store Operation Resources

Stores system and procedure ensure that right quality of material is available in the right quantity at the right place with the right amount of investment. It is accomplished through functional organization, assignment of responsibility, and documentary evidence obtained in various stages of operations from the approval of sales and production budgets to the completion of products which are ready for sale and shipment. It involves recording on printed forms of all steps and movements which occur in the acquisition and utilization of materials. Effective control also requires the systematic preparation of periodic summaries and reports.

### 9.3.1 Store Management Takes Care

1. That the required material is never out of stock.
2. That no material is available in excess that required.

Notes

3. To purchase materials on the principle of economic order quantity so that the associated costs can be minimized.
4. To protect stores against damage theft etc.

   This can be achieved through:

   a. A proper purchasing practice,
   b. An adequate procedure of receipt and issues of materials,
   c. Proper methods of storing materials,
   d. An effective system of physical control of materials, and
   e. A proper method of keeping stores record.

### 9.3.2 Location and Layout of Stores

1. Location of the stores should be carefully decided and planned so as to ensure maximum efficiency.
2. The best location of stores is one that minimizes total handling costs and other cost related to stores operation and at the same time provides the needed protection for stored items and materials.
3. Stores location depends upon the nature and value of the items to be stored and the frequency with which the items are received and issued.
4. In general stores are located close to the points of use. Raw materials are stored near the first operation in process, materials close to the next operation, finished goods near the shipping area and tools and supplies in a location central to the personnel and equipment served.
5. All departments should have easy access to the stores and especially those which require heavy and bulky materials should have stores located nearby.
6. In big industries, having many departments stores, department possibly cannot be situated where it is convenient to deliver materials to all departments and at the same time near the receiving department: thus it is convenient to deliver materials to all departments and at the same time be near the receiving department thus it becomes often necessary to set up sub stores conveniently situated to serve different departments.
7. In decentralized stores systems each section of the industry has separate stores attached with it, whereas in centralized stores system the main store located centrally fulfils the needs for each and every department.

## 9.4 Activity Based Costing

One approach is ABC-classification. This is perhaps the most well-known and used classification system for inventory management. After calculating the rupee usage for each inventory item, the items are ranked by rupee usage, from highest to lowest. The first 20 percent of the items are assigned to class 'A'. The next 30 percent of the items are classified as 'B' items. Finally, the last 50 percent of items are 'C' items.

The ABC Classification, used by itself, has limitations in spare parts management. It is based on focusing efforts where the payoff is highest, i.e., high-value, high-usage items must be tracked carefully and continuously. In this type of analysis, only quantifiable factors can be taken into

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account such as: item costs, usage rate, and historical inventory levels. Unfortunately, there are other attributes which have intangible aspects such as safety objectives, provisioning characteristics, type of maintenance adopted, loss of production, etc. that cannot be included due to intrinsic difficulties of quantification.

*Did u know?* Stores location depends upon the nature and value of the items to be stored and the frequency with which the items are received and issued.

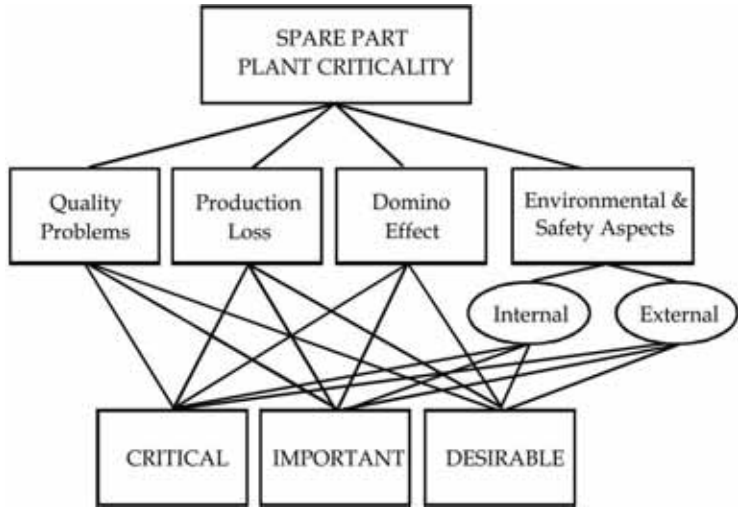
## 9.5 VED Classification

Another popular classification method, the VED method, is the most commonly used classification system for spare parts inventory management. When used in combination with other techniques, it is generally quite effective. Here parts are classified as vital, essential and desirable. When this classification is used in spare parts inventory decisions, three types of service parts emerge:

1. ***Vital parts:*** Items that cause high losses due to non-availability of equipment, in case they are needed while not in stock.
2. ***Essential parts:*** Items that cause moderate losses due to non-availability of equipment, in case they are needed while not in stock.
3. ***Desirable parts:*** Items that cause minor disruptions, in case they are needed while not in stock.

Here, criticality in usage is the ruling criterion. From the point of view of its functional necessity in production or service operations, criticality of a service part has many facets. Figure 11.6 shows one basis that is most popularly used.

**Figure 9.1: VED Analysis, Factors determining Spare Part Criticality**




There are other bases also for assessing criticality. These are listed in Table 9.1. However, evaluating the criticality of items is a difficult task. It often requires the use of subjective judgments. Generally, it is not possible to validate such pragmatic approaches. This implies that controllability and objectivity are hard to guarantee when decisions are based on management's knowledge and experience, though a systematic approach may improve this undesirable situation.

Notes

**Table 9.1: VED Classification Criteria**

| Number | Factor | Comment |
|---|---|---|
| 1 | Response time | Maximum time between a call for help and restoration of the system's functionality, as agreed by contract. |
| 2 | Functionality | Effect of the failure of an item on the system's availability: an item is functional if the system cannot function without it, or merely cosmetic if the system can continue to run without it, possibly with some minor restrictions. |
| 3 | Consumption | Total demand for an item, per unit of time, expressed in number of units or in money. |
| 4 | Stage of the life cycle | Newly developed, established and to be continued, or soon to be phased out. |
| 5 | Price | An item can be (relatively) cheap or expensive. |
| 6 | Purchase lead time | Time between placing an order to the supplier of an item and the moment it is available for use. |
| 7 | Repairability | The possibility to restore an item's functionality after failure. |

A systematic procedure that could be helpful here is the Analytic Hierarchy Process (AHP). This multi-criteria decision-making tool finds the relative priorities or weights to be assigned to different criteria and alternatives that characterise the spare parts decision.

## 9.6 Budgeting and Planning

Planning Long reliant on a maze of disconnected spreadsheets and manual processes, capital expense planning has historically been a thorn in the sides of organizations large and small—the problems of incorporating multiple areas of expertise and a large degree of inherent risk leading the best-intentioned projects to go wildly off plan. With today's emerging software solutions, however, this doesn't have to be the case. Building on the capabilities of Web-based budgeting and forecasting applications, these solutions combine the specialized functionality required for capital expenditure planning with guided workflow and process support to transform the planning of capital expenditures into an accurate and reliable process.

*Caution* Planning Long reliant on a maze of disconnected spreadsheets and manual processes, capital expense planning has historically been a thorn in the sides of organizations large and small—the problems of incorporating multiple areas of expertise and a large degree of inherent risk leading the best-intentioned projects to go wildly off plan.

## 9.7 Challenges of Budgeting for Capital Expenses

*"Planning long-term projects is costly, and public sector organizations are often put off by the difficulty of justifying the potentially high cost of aborting a project if it doesn't progress. Thus, planning and preparatory work are key. It's surprising, however, how often organizations hurl themselves into long-term projects and huge investments with the flimsiest of business cases. The focus should be on getting it right the first time."*

***—Glenn McCauley, Head of Private Finance Initiative Consulting***

Deloitte Consulting Budgeting for capital expenses is a tricky business that involves uncertain projections (and therefore a high degree of risk), dependence on a range of expertise, linking

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long-term projections with financial plans, and stringent record keeping and reporting. The following sections describe these challenges and some of the ways organizations are dealing with them.

***Capital budgeting (or investment appraisal):*** is the planning process used to determine whether a firm's long term investments such as new machinery, replacement machinery, new plants, new products, and research and development projects are worth pursuing.

(a) ***Coping with Uncertain Projections***

Typically encompassing unusual activities that take organizations into uncharted waters, large-scale capital expenditures don't conform to "normal" budgeting routines. Instead, they often require special funding and attract high levels of risk, which in turn necessitate board-level consideration and approval. This is because the issues entailed in designing and constructing major assets, such as new production processes, construction projects, and scientific endeavors, differ markedly from those considered in the acquisition of rebuilt assets. Indeed, capital expenditure projects are distinguished by their significant scale, multiyear time frames, and overall complexity—all factors that make modeling and planning capital expenditure budgets subject to significant uncertainty. Planning such expenditures involves weighing expert technical opinion against financial appraisal and risk assessment (especially critical when a project has no precedent).

Given these considerations, it's not surprising that the planning and execution of large-scale projects often go spectacularly wrong from the earliest stages—a sure sign that the capital expense planning process is flawed. Take the 2008 Beijing and 2012 London Olympics: Both projects have been dogged by budget revisions on a massive scale. And they're not alone: Countries around the world can point to public and private sector projects that have exceeded their budgets. Overruns, it seems, go hand in hand with project complexity and scale.

## Self Assessment

Fill in the blanks:

1. Typically ..... unusual activities that take organizations into uncharted waters, large-scale capital expenditures don't conform to "normal" budgeting routines.
2. Another ..... classification method, the VED method, is the most commonly used classification system for spare parts inventory management.
3. The ..... Finance Initiative (PFI) describes a partnership between the private and public sectors in which the risks and rewards of financing long-term developments are transferred to the private sector

(b) ***An Expert's View of the Challenge***

The Private Finance Initiative (PFI) describes a partnership between the private and public sectors in which the risks and rewards of financing long-term developments are transferred to the private sector. In most cases, this means that the private sector companies are responsible for building assets on behalf of local and central governments via commercially available funding, providing facilities management services, and maintaining the assets over their working lives. Such projects are generally large in scale and can often span 20 to 25 years.

According to Glenn McCauley, head of PFI Consulting for Deloitte Consulting, such projects generally involve an element of "crystal ball gazing." After all, applying decisions over such a long time frame is a process riddled with uncertainty, because it involves

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choices about not only an asset's development, but also about the services required to maintain that asset over the long term. Says McCauley, "The shape of future services may be difficult to define, and the public sector often finds it difficult to specify what it wants over the long term." Adding to these difficulties is the fact that long-term public sector plans are susceptible to changes in policy. Citing one example, McCauley says, "Many authorities are investing heavily in waste management programs and facilities for treating household waste; however, a change in government policy with regard to something like biodegradable packaging could change the overall demand for individual types of treatment facilities overnight."

What this means is that in the capital expenditure planning phases, all those involved must consider a number of options, and any arrangement that's decided upon must be flexible enough to adapt to change. Says McCauley, "You have to consider the long-term risks and the effect they may have on construction costs as well as the likely changes in services and their effect on costs."

According to McCauley, though, organizational impacts add the biggest risk during the planning phase. "It is the cost inputs suggested by technical advisors and experts," he says, "that create the biggest sensitivities in the project plan. An inefficient financing structure is going to have much less of an impact than flawed assumptions about costs. Evidence shows that for large-scale construction projects, it's the cost of building things that's important. There has to be a robust and transparent process for really scrutinizing the initial costs input."

(c) ***Promoting Multidisciplinary Engagement***

Major capital expenditures—that is, projects with contract values measured in the tens of millions—almost always span a range of functional expertise. With large-scale construction projects, for example, architects, engineers, and scientists can all be expected to have input in the planning and budgeting process, as can marketers and commercial management staff, who will bring revenue assumptions of their own. The trick, then, comes in ensuring that each discrete section of the capital expenditure plan is a tightly integrated piece of the whole, so that changes in one area are simultaneously reflected in all other areas. In other words, when one planning assumption changes, all the rest of the assumptions must take into account the consequences of that change. This scenario is further complicated when the capital expenditure plan relies on cost inputs from a number of organizations. In such cases, the plan must not only meld different functional viewpoints, but also deal with the obstacles of organizations operating in different geographies and time zones. According to Ed Kiernan, a director of business intelligence at Deloitte Consulting, all these factors make it extremely challenging to plan large-scale capital expenditures using a standard template. Says Kiernan, "Typically, these projects are too complex for the finance department to simply issue standard Excel templates to the business. Instead, the business must do its own local modeling, planning the business as it sees it." But the disconnection between business and finance is very real. Says Kiernan, "The chances are that in a very large project a number of finance professionals and bankers will pore over the economic feasibility of the plan, reviewing matters such as interest rates, taxation, and accounting policies. But who's looking at the assumptions made by the business? It's these technical and business assumptions that can really scupper the capital expenditure plan."

(d) ***Linking Long-Term Projections to Financial Plans***

Managing the financial consequences of capital expenditure planning is especially challenging—not surprising since estimating the state of a balance sheet, a dozen years out or predicting project cash flows over a decade are exercises with an inherent amount of uncertainty. Planned and unplanned changes go with the territory. Indeed, the lengthy

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timescales involved introduce considerable fluidity into planning assumptions—and finance professionals often feel cut adrift from the underlying technical assumptions made by experts outside their functional areas.

As one senior finance professional in the defense sector describes it, "The financial aspects of the plan—for example, cost of capital, the depreciation policy, funding timing, exchange rates, and so on—may have a measurable impact on the project's outcome, but these factors pale into insignificance compared to some of the assumptions made around technical and operational feasibility." The discovery of unhelpful geology on a construction project or the impact of persistent bad weather on the delivery of a North Sea oil rig can have far more damaging consequences on financial outcomes than aspects of the plan specifically related to finance.

And the issues don't go away when a project has been completed: They simply transition to ones associated with long-term service contracts. For example, how do you forecast the timing of your maintenance cash flows (both expenditure and revenue) when your service is unique and perhaps not that well defined? What's more, technology changes so quickly that assumptions about service delivery methods (such as aircraft maintenance and network infrastructure) can easily become obsolete before they even come into effect.

(e) ***Record Keeping and Compliance***

Because complex assets tend to be multifaceted, they often require a variety of accounting treatments. Providing the level of detail required to accommodate these various accounting treatments is one of the greatest challenges of capital expenditure planning.

When developing a capital expenditure plan for a complex project, organizations must correctly categorize every major component so that they're treated appropriately in the financial forecasts contained in the capital expenditure plan. For example, each component of an asset (property, plant, or equipment) whose cost is significant in relation to the total cost of the asset must be depreciated separately. For examples of this, think of an aircraft and its engines, or a blast furnace and its lining. The appropriate "cost" is the purchase price plus any costs directly attributable to bringing the asset to the location and into the condition necessary to operate it as intended by management. This cost also includes the estimated costs of dismantling and removing the asset and restoring the site on which it is located.

Most of the companies on the Forbes Global 2000 follow either International Financial Reporting Standards (IFRS) or U.S. generally accepted accounting principles (US GAAP), and most standards worldwide are based on one of these standards; therefore, this white paper does not consider accounting treatments beyond these. Although there are differences between US GAAP and IFRS, they affect the basis of measurement rather than the level of detail offered. IFRS allows assets to be valued at their historic cost or on a revaluation (fair value minus accumulated depreciation and impairment losses), whereas US GAAP generally requires the use of historic cost. The other big difference is that IFRS allows major inspection or overhaul costs to be included as part of the cost of an asset, whereas US GAAP expects these costs to be expensed.

When planning for capital expenditures, organizations must also take care to include, where appropriate, any costs directly related to employees (such as site preparation, assembly, and professional fees), which can be capitalized.

To ensure that the correct accounting treatment is applied to all the complex assets that make up significant capital expenditures, both technical expertise (engineering and scientific) and financial expertise are required.

Notes

*Caution* When planning for capital expenditures, organizations must also take care to include, where appropriate, any costs directly related to employees (such as site preparation, assembly, and professional fees), which can be capitalized.

## 9.8 Challenges Presented by Current Practices for Capital Expenditure Budgeting

It is clear that budgeting for capital expenditures is a complicated process involving cross-disciplinary teams and a high degree of inherent uncertainty. Thus, it should come as no surprise that traditional practices fall short when it comes to planning and budgeting for such large-scale, long time frame expenditures. Chief among the challenges organizations face today in trying to plan for capital expenditures is a heavy dependency on manual controls and spreadsheets and poorly developed processes and audit trails. The following sections describe these challenges and some of the ways organizations are dealing with them.

(a) ***Heavy Reliance on Manual Controls and Spreadsheets***

Current capital expenditure planning and forecasting practices rely heavily on spreadsheets. But spreadsheets—though ideally suited to performing complex calculations on behalf of individuals—are no substitute for complete applications.

What's more, spreadsheets can present a serious risk of error: Unnoticed flaws in logic and inadvertently overwritten formulae are just two conditions that can give rise to serious adverse consequences. Thankfully, many mistakes are spotted early or contained within the boundaries of the authoring company. On other occasions, however, problems "escape" into the public domain, leading to serious financial loss or reputation damage. This is particularly true of large-scale capital expenditure projects such as the preparations for the 2012 London Olympics, which failed to properly account for value-added tax, adding unexpected millions to the latest budget estimate.

(b) ***Poorly Developed Processes and Audit Trails***

An even more important limitation of spreadsheets is their limited support for capital expenditure planning and approval cycles. With different aspects of capital expenditure planning carried out in functional "silos" (so that, for example, technical and engineering costs and assumptions are performed separately from the financial plan and projected balance sheet), changes in one area are not automatically reflected in the other. The result is a lack of visibility and collaboration that jeopardizes the integrity of the plans and introduces unwelcome delays into the planning process.

Similarly, the lack of process support that characterizes spreadsheet-bound processes makes it difficult to monitor changes and trace them back to individuals.

*Note* Current capital expenditure planning and forecasting practices rely heavily on spreadsheets. But spreadsheets—though ideally suited to performing complex calculations on behalf of individuals—are no substitute for complete applications.

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## Self Assessment

Fill in the blanks:

4. ..... capital expenditure planning and forecasting practices rely heavily on spreadsheets.
5. ..... though ideally suited to performing complex calculations on behalf of individuals—are no substitute for complete applications.
6. An even more important ..... of spreadsheets is their limited support for capital expenditure planning and approval cycles.
7. Managing the ..... consequences of capital expenditure planning is especially challenging not surprising since estimating the state of a balance sheet, a dozen years out or predicting project cash flows over a decade are exercises with an inherent amount of uncertainty.
8. ..... and unplanned changes go with the territory. Indeed, the lengthy timescales involved introduce considerable fluidity into planning assumptions

*Case Study*

### Case: Retail Enterprise Business Management

Clear visibility into its stores' revenue-generating operations, a window into its "behind the scenes" operations and a way to bring everything together while retaining the ability to drill down right down to an individual store - These were a leading Retail establishment's principal needs when it approached Sentini Technologies and asked us to build an Enterprise Management System to manage its business, end to end. Sentini Technologies first took great pains to understand the company's core business. As a result, the Business Service Management system that Sentini Technologies designed and implemented treated the Retailer as a single entity with multiple subunits each influencing and affecting the other. At the same time, Sentini Technologies made sure that the company's bread-and-butter store operations' management remained the centerpiece of the entire BSM system.

***The Customer and the Challenge***

The customer was a large retail establishment and was looking for a management system with the ability to manage all revenue-generating aspects of the stores - gather transaction records at the store level from all of its stores, look for and report exceptions based on sale processing times, look for unusually low transaction volumes, provide prominent coverage to its top revenue generating stores, identify stores with the least amount of average monthly revenues, etc. Also important to the customer was the ability to reconcile store transaction records with its inventory systems so that inventory levels as a function of time and as a function of store sales activity were constantly visible to its operations team (as a supplement to its existing supply chain management system).

Additionally, this Retailer wanted to manage a multitude of internal systems and applications. These included the Retailer's Online Store that accounted for a significant percentage of its total monthly revenues, the Network Equipment that connected all of its thousands of stores to Retail HQ, Corporate Email, the Store and Internal Helpdesk systems, its mission-critical Mainframes et al.

*Contd...*

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Finally, the Retailer wanted to bring all collected data together into a single "window" so its Operational Management team could view (and act upon, if need be) various business services and their performance in a single "pane of glass" thereby increasing the team's operational efficiencies manifold.

***Sentini Technologies´ Solution Highlights***

With thousands of stores, Sentini Technologies determined that the best way to present data harvested from the Retailer's store and internal resources was in the form of a Business Services' dashboard that would, at a glance, present key information about the health and performance of the Retailer's bricks-and-mortar (and online) presence.

Choosing the IBM Net cool suite of products as the underlying technology on which to build the solution, Sentini Technologies created intelligent correlation criteria for the data collected from the Retailer's stores, internal IT network, its Mainframes and its Online Store, among other systems and resources that are under the purview of the Business Service Management system. The Dashboard that Sentini Technologies designed correlates and analyzes the collected data and updates the Retailer's Web Services, Financial Systems, Internet Gateway and Security services' statuses. Since other groups within the Retailer needed this data presented in various other formats, the results of Sentini Technologies' approach to meet those requirements. Also created for the Retailer were different reports that analyze and present BSM data in terms of store revenues, working off an archival database. These include reports that calculate the average health of the top revenue generating stores, identify the least revenue generating stores, identify consistently poorly performing store links, etc.

Other visual indicators that were designed for the Retailer identify the top 10 and top 40% store health (top 10 and top 40% defined in terms of revenue generation by store) statuses (which are also updated in real-time). Additionally, handy "smart" visual indicators of the status of other internal units and systems (such as the Online Store, the Mainframes, etc.) have also been created. Since trending is an important part of any data observation and analysis process, a 30-day rolling window constants is also available to show the variation in the aggregate store network's health (over the previous 30 days).

The ability to get the "big picture" is no doubt invaluable, but often, Operational Support teams like to drill down as much as possible so that, the root cause of a problem is isolated. In this case, by providing such an ability with the Business Services' dashboard, Sentini Technologies allows the Retailer's team to drill down into, say, the "Financial Systems" dashboard entity and find out how a particular store's POS system performance is responsible for dragging down this key indicator in the Business Services' dashboard.

***Solution Benefits***

Sentini Technologies spent a large amount of time understanding the Retailer's business and then designed and customized its Business Service Management solution, and the benefits from this system to the Retailer were obvious as soon as the system was put into production.

- Improve awareness of the impact of various store systems' generated events on the bottom-line quickly by directing attention to poorly performing or under-performing stores very easily.
- Ensure that network and system issues are identified and tackled before they escalate into major problems by analyzing network and system performance and identifying bottlenecks and problem spots.

*Contd...*

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- Enable faster decision-making - Using the intelligence built into the Business Server Management system, the number of man-hours needed to analyze collected data was vastly reduced
- Provide visibility into the details while retaining the big picture - Most store-derived entities allow users to drill down right down to an individual store. A network-derived entity would provide users the ability to drill right down to an individual circuit or fault alarm.
- Improve the Retailer's operational management team's efficiency by eliminating the need to view multiple data repositories and systems - All collected data is correlated, analyzed and presented in a single window.
- Provide the operational management team with the ability to customize the Business Service Management system to a very large extent, thanks to the open architecture of the underlying technology.
- *Grow with the Retailer's needs:* The highly scalable and modular nature of the BSM lets the Retailer easily integrate other devices and systems that may be added to the Retailer's infrastructure in future.

***Why Was Sentini Technologies Chosen?***

As a leading provider of Enterprise Management solutions targeted at companies in the Enterprise, Telecommunications, ISP, Financial and Utility sectors, Sentini Technologies' engineers have, between them, built around 70 Network and Enterprise Operational Centers.

With our vast experience in managing customers' service offerings and business services, some of the features of our solutions that make us stand out in the Enterprise Management space are:

- ***Independent of restrictive Frameworks:*** Our Solutions are made up of individual "best-in-class" products. We thereby avoid having to fit our solutions into restrictive Framework product suites, allowing Sentini Technologies to propose the best solutions for our Clients' needs.
- ***Fixed Cost Approach:*** Since our projects are fixed-cost projects, there are no budget overruns since the deliverables [and Customer expectations] are set clearly at the time the SOW is signed.
- ***Round the clock development and support:*** There are no interruptions in the development cycle since the Indian team picks up the US team's developmental efforts at the end of each (US) day. This also helps us provide our customers with 24/7 post-implementation support and maintenance.

***Solution Snapshots***

Presented here are a series of snapshots taken from the Business Service Management solution created for the Retailer. Each snapshot shows a different aspect (operationally) of how information was organized and presented to the Retailer's NOC users.

***Source:*** http://www.sentinitech.com/cstudies_retail.html

## 9.9 Summary

- There is no one shrinkage solution for all retailers since every retail store is unique. Solid accounting procedures and systems must be developed specifically for your store and scrupulously followed at all levels.

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- Employees must be properly trained to follow correct procedures. Management must follow up to see that procedures are being followed. In other words, good management will help reduce the temptation and conditions favorable for dishonesty and theft and reduce your shrinkage losses.
- Shrinkage is a variable and controllable expense. Management's attitude toward and tolerance level for shrinkage is the controlling factor.
- The ABC Classification, used by itself, has limitations in spare parts management. It is based on focusing efforts where the payoff is highest; i.e., high-value, high-usage items must be tracked carefully and continuously. In this type of analysis, only quantifiable factors can be taken into account such as: item costs, usage rate, and historical inventory levels.
- Unfortunately, there are other attributes which have intangible aspects such as safety objectives, provisioning characteristics, type of maintenance adopted, loss of production, etc. that cannot be included due to intrinsic difficulties of quantification.
- Another popular classification method, the VED method, is the most commonly used classification system for spare parts inventory management. When used in combination with other techniques, it is generally quite effective. Here parts are classified as vital, essential and desirable.
- Planning Long reliant on a maze of disconnected spreadsheets and manual processes, capital expense planning has historically been a thorn in the sides of organizations large and small—the problems of incorporating multiple areas of expertise and a large degree of inherent risk leading the best-intentioned projects to go wildly off plan.
- With today's emerging software solutions, however, this doesn't have to be the case. Building on the capabilities of Web-based budgeting and forecasting applications, these solutions combine the specialized functionality required for capital expenditure planning with guided workflow and process support to transform the planning of capital expenditures into an accurate and reliable process.
- It is clear that budgeting for capital expenditures is a complicated process involving cross-disciplinary teams and a high degree of inherent uncertainty.
- Thus, it should come as no surprise that traditional practices fall short when it comes to planning and budgeting for such large-scale, long time frame expenditures.

## 9.10 Keywords

***Overages:*** Although shortages are normally expected, it is not logical to have counted in the physical inventory more than the book figure indicates.

***Paperwork Control:*** Paperwork errors can be controlled by use of a good, well-documented system containing built-in checks and balances.

***Shoplifting:*** Shoplifting can occur at any time. Anyone can be a shoplifter; a regular customer who never intended to steal but gave in to temptation and opportunity, or a seasoned professional.

## 9.11 Review Questions

1. What is budgeting?
2. What are the responsibilities of a retail store manager?
3. What Makes the Perfect Retail Store Manager?

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4. What is the need for having time management?
5. Give a Sample Profile Sheet of yourself being as a Store Manager in Retail Industry.
6. As an expert highlight your views on challenges of budgeting for capital expenses.
7. When you walk in to a retail store, what part of the store's atmosphere may affect your shopping experience? What turns you off in certain stores?
8. "Retailers all have the same basic path to success." Discuss.
9. What are the 10 basic ways to better your retail business?
10. "Retailers all have the same basic path to success."
11. What is ABC classification of costing?
12. Briefly explain the VED analysis.
13. Write down the Challenges of Budgeting for Capital Expenses.
14. Explain the challenges presented by current practices for capital expenditure budgeting.
    (a) What do you understand by the responsibilities of a store manager?
    (b) What is the importance of staffing, selection and performance management in retail store operations?

### Answers: Self Assessment

| | | | |
|---|---|---|---|
| 1. | Encompassing | 2. | Popular |
| 3. | Private | 4. | Current |
| 5. | Spreadsheets | 6. | limitation |
| 7. | Financial | 8. | planned |

## 9.12 Further Readings


*Books*

Michael Lopez, *Retail Store Planning and Design Manual*, 2nd Edition, National Retail Federation.

Paul H. Nystrorn, *Retail Store Management*, LaSlle Extension University.

Rosemary Varley, *Retail Product Management: Buying and Merchandising*, 2006, Routledge.

*Online links*

retail.about.com/od/storeoperations/Retail_Store_Operations.htm

www.impinj.com/.../Impinj_Store_Performance_Simulator_Helps_I

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www.slideshare.net/charan_preet/5-strategies-for-profitable-retail

www.inc.com/karl-and.../the-secret-to-retail-store-profitability.html

# Unit 10: Store Design and Visual Merchandising

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## Objectives

After studying this unit, you should be able to:

- List types of store layouts
- Assess the concept of space management in retailing
- Discuss the concept of visual merchandising
- Identify the elements of store display

## Introduction

In addition to the store location decision, another decision vital decision that is important for a retailer is that of store design. If you look around today, the pace of change is certain to scare you at times. Rapid progress is being made in the way things are bought, made and sold. The consumer today is clearly the King. The choices he has before him today are unimaginable. For a simple toothbrush, he has about 100 choices. From colours to shapes to bristle length's to bristle types.

The places he buys from too are continuously being upgraded. Consumers want touch, feel and experience the product before they actually buy it. The choices that a consumer faces today extend right to the point of purchase. The consumer evaluates the outlets where he purchases and will not buy a product or service unless the retail outlet provides value to the customer.

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Good store design creates the vital difference in today's competitive marketplace. Successful companies use design as a powerful tool in their marketing strategy by making better products and building a strong retail identity. Design creates a better environment at the workplace and projects the organizational image. Good design offers many benefits - a vastly improved quality; a defined statement of identity; an optimizing of resources.

## 10.1 Store Design and Layout

The store design and layout tells a customer what the store is all about. It is a very strong tool in the hands of the retailer, for communicating and creating the image of the store in the minds of the customers. It is the creation of this image that is the starting point of all marketing efforts. The importance of store design needs to be understood form the perspective of the retailer and from the perspective of the consumer.

For the consumer a store needs to be simple to navigate; it must appeal to his sensory perceptions and must create a sense of belonging to a sense of relationship, a sense of security or assurance and a sense of pleasure in the shopping experience. While the merchandise the sales personnel the location and the pricing all work towards crating an image it is the physical attributes of a store which affect the customer's sensory perceptions and makes him relate to the store in a particular manner. They work with the other elements towards creating the desired image or atmosphere.

The environment which is created in the retail store is a combination of the exterior looks of the store, the store interiors the atmosphere in the store and the events, promotions and the themes, which form a part of the retail store.

A well-planned retail store layout allows a retailer to maximize the sales for each square foot of the allocated selling space within the store.

Store layouts generally show the size and location of each department, any permanent structures, fixture locations and customer traffic patterns.

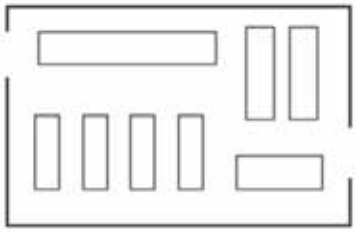
Each floor plan and store layout will depend on the type of products sold, the building location and how much the business can afford to put into the overall store design.

There are a number of different types of layouts commonly found in retail stores. The layout used will be dependent on the width and depth of the product range, the nature of the product categories sold, the type of fixturing used and the constraints of the outlet in terms of size and shape. The objective of a store layout is to maximize the interface between customers and merchandise.

Some of the common layouts are:

***Straight Floor Plan:*** The straight floor plan is an excellent store layout for most any type of retail store. It makes use of the walls and fixtures to create small spaces within the retail store. The straight floor plan is one of the most economical store designs.

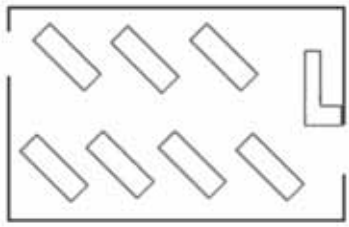
**Figure 10.1: A sample straight floor plan**



Notes

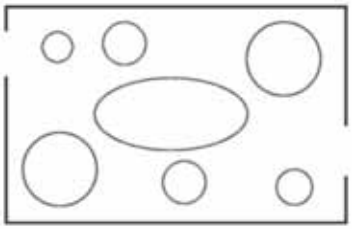
***Diagonal Floor Plan:*** The diagonal floor plan is a good store layout for self-service types of retail stores. It offers excellent visibility for cashiers and customers. The diagonal floor plan invites movement and traffic flow to the retail store.

**Figure 10.2: A sample diagonal floor plan**



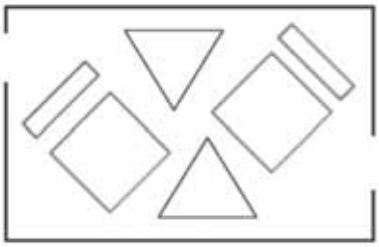
***Angular Floor Plan:*** The angular floor plan is best used for high-end specialty stores. The curves and angles of fixtures and walls makes for a more expensive store design. However, the soft angles create better traffic flow throughout the retail store.

**Figure 10.3: A sample angular floor plan**



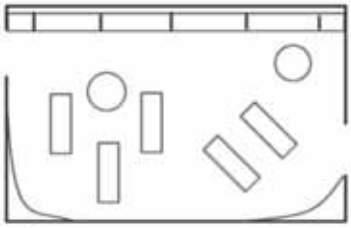
***Geometric Floor Plan:*** The geometric floor plan is a suitable store design for clothing and apparel shops. It uses racks and fixtures to create an interesting and out-of-the-ordinary type of store design without a high cost.

**Figure 10.4: A sample geometric floor plan**



***Mixed layout:*** The mixed floor plan incorporates the straight, diagonal and angular floor plans to create the most functional store design. The layout moves traffic towards the walls and back of the store.

**Figure 10.5: A sample mixed layout plan**



Notes

### 10.1.1 Design in Non-Store Retailing

Although non-store retail formats place some significant restrictions on the use of design in the selling environment, innovative approaches have often paid off as a source of competitive advantage.

For example, when NEXT launched their NEXT Directory it was unlike anything customers had previously encountered in the UK home-shopping market. The format was more like a coffee-table book than a catalogue, with hard covers and a much higher proportion of full-page spreads than used by other mail-order retailers, and the bold and neutral corporate identity of the stores is clearly reflected in the pages. Early editions even included small swatches of material to allow customers to get a 'feel' for the garments prior to purchase. The catalogue was aimed at a more upmarket customer than the typical mail order catalogue profile, with a narrowly targeted, all retailer-branded range of products.

## 10.2 Objectives of Store Design

#### Store Design Objectives

Following are the prime objectives of store layout and design:

- Consistent with retailers image and strategy
- Positive influence on customer satisfaction and purchase behavior
- Cost effective
- Flexible
- Meet needs of disabled

#### *Tradeoff in Store Design*

- Easy of locating merchandise for planned purchases
- Exploration of store, impulse purchases

#### *Four key elements of effective retail store and design*

The Retail experts, has published *four key elements* of effective store and design: external signage, store layout, internal category management and internal ambiance. Accordingly, "There are many examples of power in a retail store where all the elements of innovative design, format, statement, power merchandising, clear and compelling messaging combine with a unique and consistently delivered sales and service impact,"

#### *Tips for Store Design and Layout*

- The signage displaying the name and logo of the store must be installed at a place where it is visible to all, even from a distance. Don't add too much information.
- The store must offer a positive ambience to the customers. The customers must leave the store with a smile.
- Make sure the mannequins are according to the target market and display the latest trends. The clothes should look fitted on the dummies without using unnecessary pins. The position of the dummies must be changed from time to time to avoid monotony.

Notes

- The trial rooms should have mirrors and must be kept clean. Do not dump unnecessary boxes or hangers in the dressing room.
- The retailer must choose the right colour for the walls to set the mood of the customers. Prefer light and subtle shades.
- The fixtures or furniture should not act as an object of obstacle. Don't unnecessary add too many types of furniture at your store.
- The merchandise should be well arranged and organized on the racks assigned for them. The shelves must carry necessary labels for the customers to easily locate the products they need. Make sure the products do not fall off the shelves.
- Never play loud music at the store.
- The store should be adequately lit so that the products are easily visible to the customers. Replace burned out lights immediately.
- The floor tiles, ceilings, carpet and the racks should be kept clean and stain free.
- There should be no bad odour at the store as it irritates the customers.
- Do not stock anything at the entrance or exit of the store to block the way of the customers. The customers should be able to move freely in the store.
- The retailer must plan his store in a way which minimizes theft or shop lifting.
    i. Merchandise should never be displayed at the entrance or exit of the store.
    ii. Expensive products like watches, jewellery, precious stones, mobile handsets and so on must be kept in locked cabinets.
    iii. Install cameras, CCTVs to have a closed look on the customers.
    iv. Instruct the store manager or the sales representatives to try and assist all the customers who come for shopping.
    v. Ask the customers to deposit their carry bags at the entrance itself.
    vi. Do not allow the customers to carry more than three dresses at one time to the trial room.

## Atmospherics and Aesthetics

The important element of the store interiors is termed as atmospherics and aesthetics. *Atmospherics* is the design of an environment with the help of visual communications, lighting, color, music, and scent to stimulate customer's perceptual and emotional responses and thereby influence their buying behavior. Philip Kotler first introduced the concept of atmosphere. Retailers in India are fast learning the effects of various elements of atmospherics on customers.

***Aesthetics*** on the other hand takes into consideration factors like the actual size of the store, the colors, textures, etc, used within the store to create a particular look and feel for the store. Texture deals with the look and feel of materials. Every material item possesses a texture. Visual texture is the result of light refracted form any surface. Balance on the other hand, is the distribution of weight in a display. Three types of balance exist: symmetrical, asymmetrical and open.

Store Interiors are a function of the fixtures, flooring, ceiling, lighting and signage used within the store to create a particular look.

Most of the UK's largest retailers have a huge investment or asset tied up in their store portfolio. It is therefore in their interest to keep a high level of customer traffic moving through the store

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in order to maintain an adequate return on that investment. Good use of design in stores helps keep customers interested in store-based shopping. When consumers have a high level of choice, they will visit places where they feel comfortable inspired and even entertained. Customers are nowadays more design literate; the plethora of interior style media offerings has created a body of consumers that are not willing to tolerate badly designed and poorly decorated space. Competitive threats from home shopping means that the store environment has to have something special to offer, and international competition can also force retailers to pay more attention to their selling environments. Spanish fashion retailers Mango and Zara, who use clean-cut and modern store interiors, have been able to threaten domestic retailers in the UK middle-market women's clothing sector.

Store design has always been used to reinforce other elements of a retail strategy.

*Example:* Plush carpeting and marble used in a store denotes high-quality merchandise and may suggest a high-price positioning. Strip lighting and dump bins for merchandise brings the word 'bargains' to mind. However, as retail markets mature, the design of retail space is increasingly being used as a means by which strategic aims are reached.

*Example:* In 2001 Safeway introduced a new store design to reinforce their position as a good-value fresh and quality grocery retailer. Wood panelling, slate tiling and pendent lighting were used in the wines and beers section to create the impression of an upmarket wine cellar; baskets and barrels were used in the fruit and _ vegetable section to give the impression of 'market freshness' and chalkboard signage to foster the impression of good prices.

It is these small details that help to refocus the attention of the shopper onto revised core values, providing a struggling grocery chain with a new lease of life to compete against other forceful players in the market (Atkinson, 2001).

## Self Assessment

Fill in the blanks:

1. The main objective of the store layout is to maximize the interface between ..... and ..... .
2. A ..... floor plan is most suitable for a clothing store.
3. ..... floor plan is the most functional store layout.
4. Most of the UK's largest retailers have a huge ..... or asset tied up in their store portfolio.
5. Store ..... has always been used to reinforce other elements of a retail strategy.

### 10.2.1 Space Management

There are essentially two ways of presenting merchandise in a store. The first is to place or stack a product on some kind of fixture; stacked merchandise can be neatly arranged or, as in the case of promotional items, it can be 'dumped'. The second way is to hang the product; either directly onto a hanger, or onto a prong, using some kind of specially designed packaging. Having decided on the type of presentation to be used, it may then be necessary to use a specific method of organizing the product presentation in order to provide logic in the offering, or to enhance the visual appeal of merchandise.

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*Example:* Clothes are often presented according to colour themes, and greetings cards are presented according to end use. Other techniques include grouping according to price, technical features and size.

***Space Management Objectives***

- Use space effectively whether floor, page or virtual
- Optimise short- and long-term returns on investment into retail space
- Provide a logical, convenient and inspiring product-customer interface
- Make right selection of products available
- Communication of retailer's brand identity

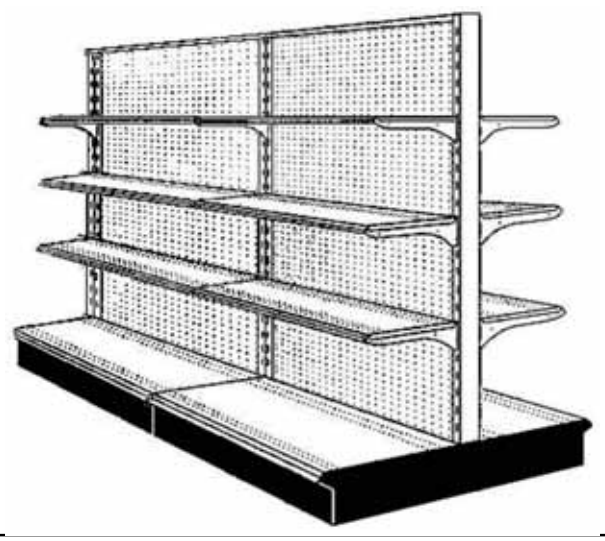
## 10.2.2 Fixturing

Fixturing is necessary to display merchandise to customers, whilst making best use of the retail space. Fixtures can be obtained from a shopfitting wholesaler, or they may be custom-built to tie into a specific retail design. The following fixtures are commonly found in retail stores: shelving, gondolas railings, four-ways, round fixtures, bins, baskets and tables. The type of Fixturing used will depend on the product and its presentation method.

### Gondola Shelving Unit

Gondola shelving units have been around for a very long time. The versatility makes gondolas easy to install and change on a frequent basis. The pegboard backing and shelving comes in several heights and depths. It is also available in a variety of colors, but the most common is almond. Gondola shelving can be used to create end caps, wall units or center aisles.

**Figure 10.6: Gondola Shelving Unit**



***Source:*** http://retail.about.com/od/storefixturesdisplays/ig/Store-Fixture-Photo-Gallery/Gondola-Shelving-Unit.htm

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**Figure 10.7 : Four Ways Fixture**

***Source:*** http://www.creativedisplay.in/Pages/products.aspx?series=FloorFixture

**Figure 10.8 : Office Cabinet**

***Source:*** http://allnations.net/furniture/items/cabinets/9550.jpg

In order to create a consistent look within the outlet, it is sensible to choose fixturing that is coordinated in terms of the type of material and style. An array of different types of fixturing may provide flexibility, but it can make a store appear cluttered and untidy. It is generally the merchandise rather than the fixturing that should be noticed, although some fashion stores do use unique designs for fixtures that help to reinforce the retail brand image.

### 3 Tips for Choosing Customer-Friendly Fixtures

Win customers by using retail display systems that are customer friendly: in other words, harness the powerful psychology of shopping. People love to shop. In fact, a great number of people consider shopping a relaxing leisure activity or even their hobby, with Business Network (BNET) stating that 39 percent people in the United States "love to shop." So, retailers in general have an eager audience that is ready and willing to buy its products – but, they also have significant competition and so they must woo and win the attention of their potential customers.

One key way to attract and keep the attention of shoppers is to create an environment that is conducive to shopping – and one key way to do that is to use compelling, interchangeable store fixtures and retail display systems to keep your store fresh, interesting and appealing.

Here are several more important tips:

1. ***You can´t use yesterday´s store fixtures to capture the attention of today´s shoppers:*** An educational site in the United Kingdom – BizEd – published an article titled "The Psychology of Shopping." This article reported that retail giants of the 1970s relied heavily

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upon the philosophy of "pile it high, sell it cheap" and they found success with that philosophy. Since then, though, retailers are using increasingly sophisticated ways to capture the attention of shoppers – which means that you, as a retailer, also need to use contemporary strategies, which include attractive retail fixtures, to keep customers satisfied.

2. ***Choose retail displays and fixtures that are uniquely suited to your target market:*** Here's a great example of how not to structure your retail space. A blogger at a site for petite female shoppers was complaining that retailers – meaning those who cater to the petite – use retail displays that are not within comfortable reach of its customers. Now, does that make any sense? Of course not. Take a detailed look at your own store. In what ways are the store fixtures and retail displays that you're using not compatible with your customers' needs?

3. ***Design your space using retail display systems that make it easy for your customers to keep shopping***: The BizEd article also pointed out how successfully some retailers lay out their stores using retail displays that allow and even encourage a customer to keep browsing. Nothing blocks the customers from this path. So, again, take a look at your own store. What store fixtures or other items make it difficult for your customers to continue to navigate through all of your products? Remember, too, that an average person's field of vision tends to be around 170 degrees. Keep that in mind as you design your retail space.

Finally, here is a fun quote from a 1924 publication about the psychology of clothes – and, really, it also relates to the way you lay out your retail displays! According to this publication, "dress has a tremendous influence upon individuals, upon both the wearer and the beholder. The consciousness of being becomingly and fittingly dressed for the occasion, whatever that occasion may be, strengthens and insures one's self-confidence tremendously, gives poise and self-command, encourages the brain to forge forward, emboldens the timid tongue, and quickens one's wits along the avenues of resourcefulness, inventiveness, graceful speech, and tact. In fact all of one's faculties are stimulated and inspired by the consciousness of being properly attired."

Yes, dress does have a tremendous psychological impact on the people wearing them – and the way in which you arrange your retail fixtures have a tremendous psychological impact upon the customers who walk inside your front door. Make your retail space a friendly welcoming place through the strategic use of contemporary compelling store fixtures today!

## 10.2.3 Displays

Fixturing is generally concerned with the housing of merchandise in what is sometimes termed 'on-shelf' displays. This is the routine display of goods from which customers are expected to make their selection.

### Creating Attractive Displays

Creating an attractive product display can draw the customer in, promote a slow-moving item, announce a sale, or welcome a season. If your store front is fortunate enough to feature one or more windows, then you have one of the most proven (and least expensive) forms of advertising at your disposal.

Some stores located in a mall or other structure may lack windows, but don't despair. There are many places throughout the store to build beautiful displays. Take a look at the flow of traffic in your store. Are there any areas that are a focal point for customers?

Your local community may have individuals or visual merchandising companies you can hire to dress your windows, but if you're concerned with saving money, the following tips will help you create an attractive display.

Notes

## Visual Display Tool Box

Before designing a product display, put together a visual display tool box to keep on hand. By having all of these items in one location it will save time in actually preparing the display.

- Scissors, Stapler, Two-Sided Tape, Pins
- Hot glue sticks and glue gun
- Monofilament Fishing Line
- Tape Measure
- Razor Blade/Utility Knife
- Hammer, Nails, Screwdriver, Screws
- Notepad, Pencil, Marker
- Signage, Sign Holders
- Glass Cleaner/Paper Towels
- Props (Non-merchandise Items)

Take time to plan the display. Consider what you want to accomplish, develop a budget and determine a central theme. You may even want to sketch your display on paper. Gather your visual display tool box, the merchandise and any props. Make sure all materials and location (tables, windows, racks) are clean. Choose a slow time of the day or build the display after hours.

## Elements of Effective Visual Merchandising

- ***Balance:*** Asymmetrical rather than symmetrical balance with the display.
- ***Size of Objects:*** Place the largest object into display first.
- ***Color:*** Helps set mood and feelings.
- ***Focal Point:*** Where product and props/signage and background come together.
- ***Lighting:*** Should accent focal point, if possible.
- ***Simplicity:*** Less is more so know when to stop and don't add too many items.

Once the display is finished, add appropriate signage. Take photos of the display and keep record of the product sales during the display's existence. Save your information in a file folder for easy reference. By documenting its success, you can re-create the display next year or if it flops, you can make sure you don't repeat the same mistakes.

Like any other aspect of retailing, creating an attractive display takes a little skill and lots of trial and error. As your store changes, so will your opportunities for visual displays. Keep working at designing eye-catching and innovative ways to make your retail store profitable through visual merchandising.

'Off-shelf' or feature displays are used to create a visual impact with the merchandise, or to show how the product might be used. They might also be used to introduce and promote new products or to support supplier promotions or trade initiatives (such as Fair Trade). As they are not intended to be used in the routine selling of the products they can be artistically arranged and situated in parts of the store that are not useful for selling purposes, such as high up on walls or within an alcove (although the closer to the selling stock the better, in order to encourage customers to respond to the display). Often, more than one product is used in an off-shelf display.

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*Example:* To suggest complementary purchases or to show the depth of offer in a particular product category; mannequins are used for displaying complementary or coordinate clothing products in this way.

Feature displays often follow a theme to add interest within the selling environment. Themes for displays include seasonal, color and lifestyle orientations. Within the calendar year, there are a number of seasonal opportunities over and above the general 'weather'-dictated seasons of Spring, Summer, Autumn/Fall and Winter.

*Example:* New Year (celebrations and resolutions), Valentines Day, Mother's Day, Easter, Father's Day, Holidays, Back to School, Halloween and Christmas. Lifestyle themes can take an extensive variety of forms, and follow some kind of preference in terms of personal consumption or time expenditure. Lifestyle themes that retailers could use include sporting interest or participation, health interests, musical preference, home entertaining, hobbies, occupations, and so on.

Another type of off-shelf display is the promotional display. This is a technique frequently used in grocery stores and features a display comprising a large amount of stock of one item, often housed on a dedicated fixture. This type of display is often found at the end of the gondola (on 'end caps'), where the sheer volume of one product item catches the shopper's attention.

For many retailers, the most important display space is their windows, as they are the means by which customers are attracted into the store. The window communicates the type of product the retailer sells and is also used to indicate market positioning. Window displays can be open, where the customer can see behind the merchandise into the store, or the window may have a closed back which allows the retailer to create a more elaborate display. Destination stores like department stores often use closed window displays, but many retailers are of the opinion that the backed window can act as a barrier between customer and store, and therefore is less welcoming to customers. Diamond and Diamond (1999) suggest that effective displays follow one or more of the general principles of design, which are: balance, emphasis, proportion, rhythm and harmony.

### Shelf Display Ideas

The way your living space is decorated can leave a lasting impression on your guests. Shelves can provide a distinctive space to display your accessories and collections. Even if you're just using shelves for books, there are ways in which they can be artistically arranged. Change your shelves around and make an impact. Many times, no additional purchases are necessary and you can achieve decorating success with items you already own.

**Figure 10.9 : Onshelf display**

***Source:*** http://img.ehowcdn.com/article-new/ehow/images/a06/2s/nf/shelf-display-ideas-1.1-800x800.jpg

Notes

### Black and White Photographs

To use shelves in a way which is subtle, yet still provides a big impact, hang black or dark wood shelves on a colored wall. Print family or decorative photographs in black and white. Place the photographs in black frames with white matting. Don't be afraid to use different frame widths and styles within this color scheme. Arrange the photographs on the shelf. The more brightly colored the wall, the stronger the black and white photographs will stand out.

### Color-Ordered Books

If you have a large collection of books and are looking for a distinctive way to organize them, arrange them by the primary color of the spine. Place all the reds together, the oranges together, continuing in this pattern for all colors you have. Another option for those who like the look of books, but may not own a large collection, would be to purchase used books and remove the dust jackets. Paint the spines with spray or acrylic paint and line up. Some color combination ideas to consider are white shelves with a row of gold books; blonde wood shelves with blue or green books and black shelves with silver books.

### Off shelf displays

**Figure 10.10: Off shelf displays**

**Figure 10.11: Off shelf displays**

Notes

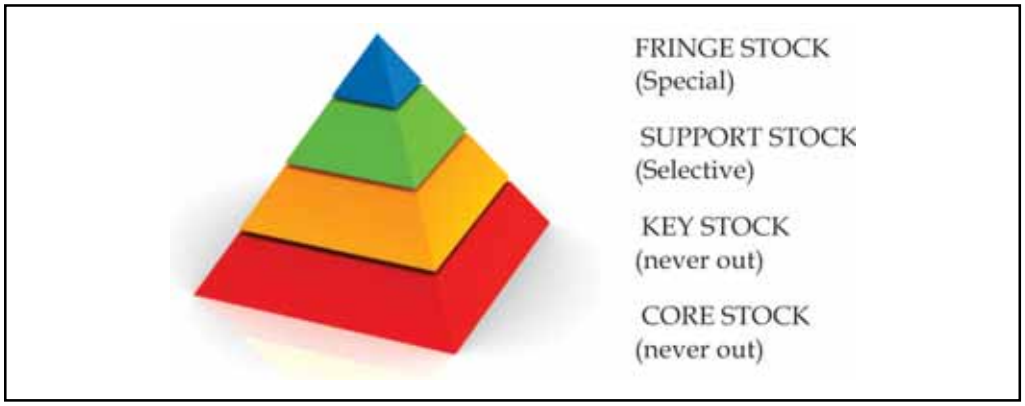
### 10.2.4 Space Allocation

The allocation of space to products within a retail outlet links the designed selling environment to the financial productivity of the retail space. Space management has to consider the long-term objectives concerning market positioning and customer loyalty, alongside short-term objectives concerning stockturn, sales and profits. A retail outlet that looks beautifully spacious will not stay that way if there are not enough products selling to sustain the business, yet if the store is full to bursting with merchandise some customers may choose not to enter the foray. Retail space is costly and increasingly scarce and so whatever the visual merchandising strategy is, an adequate return must be made.

#### Retail Space Allocation

To determine the optimum stock mix, retailers must first identify their core merchandise - that is, the merchandise that makes the statement that defines the range. Then, using this core stock as a foundation, they can build the rest of the range to complement and augment it as shown below.

**Figure 10.12: Retail Space Allocation**




*Source:* http://www.thetemplargroup.com.au/article-stock/retail-space-allocation

The skill lies in getting each of these categories of stock in the correct depth and breadth.

#### Sales versus Space Allocation Analysis

One simple analysis that can be performed to see if your store is maximising its productivity is to conduct this relatively simple review.

Step 1 From your sales history (six or twelve months) conduct a sales analysis of sales coming from all departments as a percentage of the whole store.

Step 2 You can then do a similar analysis of the space allocations per department as a percentage of the entire store (just count linear metreage for speed's sake).

Step 3 Compare the percentages against each other to see if there are glaring anomalies. The simple toy store example below displays a format you could use.

#### Allocating Space to Individual Products

- Products, like categories are often allocated space on the basis of sales.
  - *Advantage:* product is less likely to sell out
  - *Disadvantage:* may not be profitable

Notes

- Different sales figures have advantages and disadvantages
  - historical sales
  - market share
  - projected sales

The usual method for measuring retail performance is according to the amount of sales (or profits) generated by a given amount of space. Sales per square metre are a commonly used method of assessing the value of retail space, but linear and cubic measures can also be appropriate. Space planning needs to take account of not only the amount of space allocated, but also the quality of space;

*Example:* The space nearest the front of the store and the till areas are usually the most productive. Certain practicalities also have to be taken into consideration, such as the size and weight of the merchandise.

Space-allocation decisions usually need to be made at various levels of merchandise classification, for example at departmental level, product category level and SKU (stock keeping unit) level. Retailers usually have some historical data that can act as guidance in the allocation of space, for example a similar store's performance, or historical department sales figures, but the need for the maximization of financial objectives means that space planning and allocation is under constant review and refinement at individual store level. The allocation of space can be geared towards different objectives, for example achieving the highest sales turnover, maximizing product profitability or maximizing customer satisfaction, and a retailer may be faced with making trade-off decisions in order to achieve those objectives. Those products that generate the highest sales value may only achieve low profit margins, but concentrating on high-profit items may put unnecessary emphasis on products that are less of concern to customers, thereby decreasing their levels of satisfaction. The matrix suggests alternative space allocations according to whether a product has high profitability or high sales.

### Space Allocation Systems

- ***Advantages:***
  - optimises space productivity
  - maintains consistent corporate identity
  - allows retailers to experiment with visual display
  - helps to achieve efficient assortment (see ECR)
  - moving towards store specific planograms
- ***Disadvantages:***
  - costs
  - not appropriate for small retailers or where displays are frequently changed (e.g. independent fashion retailer)

Consideration of the financial implications of allocating amounts of space must be conducted within the framework of an outlet plan that is geared to making the shopping experience of the customer a satisfactory one. Too much emphasis on the retailer's financial objectives could result in a store being laid out illogically and make products difficult to find. Long-term profitability is dependent on customer satisfaction and loyalty, and so space planning must incorporate factors other than individual product sales and profitability. Aspects such as seasonal

goods, the physical size and weight of the product, the type of fixturing required and the need to display complementary goods in close proximity should all have a bearing on the overall plan.

The complexity of space-allocation decisions has encouraged the use of computer-based systems as a retail management aid. Modern space-allocation systems are able to synthesize a plethora of quantitative and qualitative data such as product costs, sales forecasts, product sizes, complementary purchasing potential, fixturing details and so on. The output of these systems is a space-allocation plan or planogram that shows exactly how the products should be displayed on the fixturing, including the number of facings of each product that the customer should see.

Although space-allocation systems have resulted in retailers using space in a much more productive way, they do have limitations. Most large multiple retailers have a portfolio of stores that differ in size and shape, and so unless that retailer has access to individual store input data and the system is capable of producing customized plans for each store, the planogram will have to be subject to a certain degree of interpretation at store level. Many retailers have tackled this problem by grading their stores by size and producing a set of plans for the different store grades. However, grading by size is a very crude method of assessing different stores. Recent advances in micro-marketing have shown that the profile of a store's catchment area gives a better indication of the type and amount of merchandise required than the size of the outlet (Ziliani, 2000). As retail management-information systems become increasingly sophisticated, this type of store performance analysis and customer-profile customization will become more widespread. Space allocation systems are expensive, and may be beyond the means of the smaller retail organization.

### Self Assessment

Fill in the blanks:

6. Gondola, shelving, bins and basket are common types of ..... found in retail stores.
7. ..... shows exactly how the products should be displayed on the shelves.
8. Although ..... systems have resulted in retailers using space in a much more productive way, they do have limitations.
9. The ..... of space-allocation decisions has encouraged the use of computer-based systems as a retail management aid.
10. Long-term ..... is dependent on customer satisfaction and loyalty, and so space planning must incorporate factors other than individual product sales and profitability.

## 10.3 Visual Merchandising

### 10.3.1 Visual Merchandising and Displays

Visual merchandising is concerned with presenting products to customers within the retail space. It is a term sometimes used as an alternative to merchandise display, but these days is generally understood to have a wider definition encompassing all activities concerned with the presentation of the product within the retail outlet, including the choice of store layout, the method of product presentation, the choice of fixture and fittings, the construction of displays, and the use of point-of-sale material. It also has a very close connection with the allocation of space within the outlet. Visual merchandising is more important in some retail sectors than others.

Notes

*Example:* Fashion and home furnishing retailers have always devoted considerable resources to displaying products in a visually appealing way, whilst discount grocery retailers are much more concerned with space efficiency. However, the need to adapt to style-conscious twenty-first-century customers is as relevant to the way products are presented as the way a store environment is designed.

The implementation of a visual merchandising strategy within a retail business is not standardized across the industry. Lea-Greenwood (1998) found that visual merchandising could be the responsibility of directors of corporate communications, promotion or marketing, whilst some retailers gave the function the status Of a specific directorship. Often a multiple retailer will employ a team of regional visual merchandisers who rotate through a number of stores in a given area. The creative aspect of the visual merchandiser's role attracts people with a design training or background, although specific training for visual merchandising is becoming more common. One of the advantages of using a centralized team is that the retail brand identity can be controlled across all outlets, and visual merchandising can tie in with other corporate communication themes and messages. There is, however, a danger that the centralized approach may prevent the retailer from adapting to local themes, preferences and competition in the visual merchandising activity.

### 10.3.2 Exterior Design and Layout

The exterior of most stores includes the fascia, mentioned above, the store entrance, the architectural features of the building and windows. The contribution of these parts of a store's exterior to an overall design can vary in importance according to the type of store format and the products on offer.

*Example:* Superstores, hypermarkets and category killers rarely use window displays, but have bold fascias and easy to access entrances. Standalone stores may have to conform to strict architectural guidelines imposed by government planning authorities, whilst the centre management team may control the exterior of stores in a planned regional shopping centre. Entrances can be designed to be open and welcoming, or closed and exclusive. A key consideration for retailers is the need to be accessible for all members of society.

Store design involves formulating and structuring all elements of the physical environment. The storefront includes all aspects of the front/exterior of the store. Elements include the marquee (or exterior sign), entrances, windows, banners, planters, awnings and lighting. As major vehicles for communicating image, storefronts create differentiation among retail stores. This is especially true in shopping centers and malls in which a store struggles for visual identity among all the others that surround it.

The architectural style of a retail business suggests the nature, quality, and price of the merchandise as well as the company's status in the marketplace. Exterior visibility for Customers traveling by foot or by automobile is essential. A unique building design and distinctive landscaping help retailers capture the attention of potential customers.

The architect must balance the aesthetic factors that affect image with the complex operational needs of the retail business. Economic considerations include future maintenance and energy or utilities requirements, as well as construction and materials costs.

Three other important functional aspects of exterior design are customer visibility, store security, and potential for efficiency among staff and associates.

Notes

A variety of approaches to store exteriors are available to retailers. Modular or prefabricated structures are pre-manufactured, fitted with electrical and plumbing fixtures, and transported to be secured on a slab or attached to other units. These buildings are most commonly found in a self-service format, such as a convenience store. Chain store companies with freestanding stores may use uniform prototypes of different sizes, each having standard specifications, to achieve cost advantages through mass production.

Retailers entering shopping malls often find that the developers establish the rules for storefront design to ensure overall image consistency. An exterior design may be subject to the approval of many agencies, including zoning boards, fine arts commissions, and residents' associations as well as developers and other retail tenants. The aesthetic benefit of consistent design is evident in the traditional marketplaces that have been carefully restored.

Signs and windows also are important components of the exterior appearance of a retail business. Like other elements of the design mix, they help the retailer establish an identity in the minds of target customers.

**Figure 10.13: Exterior Design**

### 10.3.3 Interior Store Design and Layout

Interior design involves all components of the store interior, including fixtures, graphics, flooring, ceiling, lighting; and other visual elements. Of all the elements of store design and visual merchandising, interior design has the greatest capacity to convey store image and create certain moods and emotions in buyers.

Basic interior design begins with such items as the width of aisles, the treatment of pipes and vents, the decoration of walls, and the style of lighting fixtures. All these elements contribute to customers' perceptions of and responses to the store.

Displays inside the store should relate to the displays seen in the windows. Good display effects should continue inside the store to move customer traffic through the store. The aisles, the signs that direct the customer, the walls, and the interior displays are most important to the total visual concept of the store. Each department, shelf, counter, ledge, case, and furnishing in addition to the display areas requires analysis in executing display techniques. The furnishings of the store should be attractive and placed so as to enhance the visual impact on the customer. There should be updating and improvements in fixtures to avoid a stagnant, dated effect.

Notes

*Example:* The seasons of the year usually dictate visual changes.

### Fixtures/Display areas

Display fixtures include racks, stands, tables, shelves, and other devices for physically presenting merchandise. They may be floor fixtures-round, rectangular, or box-racks, cubes –or wall fixtures such as brackets, shelves, etc.

In addition to holding merchandise and displaying it, store fixtures influence a store's interior design, from its traffic flow to the image it projects to customers.

All furnishings of the store should be placed to enhance the visual impression each floor presents. They should be arranged both to sell the most merchandise and to be pleasing to the customer.

**Figure 10.14: Display Area in a Store**

### Corner Shops

These shops, as well as other marked-off areas with distinctive décor, are employed by store engineers to relieve the monotony of departmental furnishings.

### Shelves

Obviously, shelves are necessary to store stocked merchandise. They are poor display areas, however, and should be hidden whenever possible by walls, curtains, and so on.

### Counter and Table Display

These sell merchandise more readily than do shelf displays, because they are located in front of the stock areas, bringing the goods nearer to the customer and allowing the customer to usual design for counters and cases. However, rounded, oval, and surrealistically shaped counters not only ease the flow of traffic through a store, they appear less regimented and do not present hazardous sharp edges to the customer. They are a pleasant change from the square design.

Notes

Placing store furnishings at an angle to the structural lines of the interior is an arrangement that will increase sales at no added expense to the store. If all aisles are straight from front to back, the customer moves too quickly through the store. Even a slight deviation from the usual parallel placement will lead people in a more comfortable and leisurely path, slowing them down and inviting them to take notice of the surroundings. Likewise, when customers are leaving, counters carefully arranged at angles to the wall will seem to hold them back, to delay their departure. Each hesitation on the part of the passerby is an opportunity for interior displays to make a sale.

### Ledges

The tops of shelves sometimes serve as areas for display. They necessarily follow the set structural lines of a department. Ledge areas may be made very attractive with the addition of decorative pieces for seasonal promotions. Because ledges with shelf space below them are above the comfortable range of vision, constant care must be exercised in the placement of merchandise. Unsightly portions of it, such as chair seats, shoe soles, wrong sides of materials, or unfinished backs of stoves or refrigerators, should not be visible to the customer's eye and must be camouflaged with decorative effects.

### Merchandise walls

Imagine a customer standing in the entrance to a store, taking in the "view." Wherever that customer looks the background will be a merchandise wall. Merchandise walls form the total background of the store.

Types of merchandise walls

- Those that house merchandise and display that merchandise using face-outs
- Those that house merchandise and display that merchandise using grids

But these walls can be treated in many ways to create a strong store "look" and provide an interesting, colorful background for the store's other fixtures and displays.

### Color & Lighting

Color and lighting are critical to an ambiance that projects a store's image and attracts customers. Used strategically, color can influence the perception at a room's size complement the merchandise on display, state a as lion position, and attract a particular clientele. The psychological effects of color have been well documented.

*Example:* Blue, green, and violet project elegance and orange, yellow, and red convey intimacy.

Appropriate lighting in turn, enhances the effects of interior color.

Lighting is essential to creating interest, shaping moods, and stimulating customer buying. Compared to other interior design elements, it has a very potent, immediate effect. Its functions include the illumination of space and merchandise, the accurate rendition of color, and the use of contrast to direct customer attention and movement. Merchandise may be lit directly through color and intensity or indirectly through surface highlighting, the degree and type or lighting needed depend on the merchandise to be presented. Spotlights emphasize key promotion, displays; lights of varying intensity draw shoppers to particular areas. In fitting rooms and mirrored selling areas, lighting must be designed to flatter customers.

Notes

Figure 10.15: A Store with Innovative Lighting

## Sound and Aroma

Sound is an important design tool because of its ability to affect buying behavior. Music in particular helps create a retail environment in which sensory satisfaction brings relaxation and a willingness to purchase, Programming can be used thematically to reinforce the merchandise or it can be used to attract the target customer group.

Music may also be used strategically to obscure other sounds or enliven an oppressively silent atmosphere. In price-positioned discount stores or supermarkets, promotional and informational announcements to help spur sales frequently interrupt background music.

Even aroma is a potential component, Pleasurable scents add to a store's atmosphere, stimulating customers' appetites and encouraging them to buy. The aromas of breads, pastries, chocolates, and coffee can be an extremely effective selling tool. Other products that may be enhanced through aroma are leather clothing and luggage, flowers and houseplants, tobacco, and cosmetics. And, of course, the primary method of marketing fragrances is in-store demonstrations of the scents.

*Task* Suppose you are going to set up a departmental store. Prepare a design of your store focusing on layout, fixtures and displays.

## Self Assessment

True or False:

11. It is very important to have an eye catching exterior design as it captures the attention of the onlookers.

12. The retailers inside a mall are free to design their exteriors in whichever way they want.

Notes

13. The display inside the store should be different from the display in outside window as customers have already seen the items on window display.
14. Shelves are necessary but should not be visible to the customers, therefore should be hidden.
15. Colour of the walls and fixtures can be instrumental in enhancing the beauty of merchandise on display.

*Case Study*

## Case: The art of visual merchandising

Visual Merchandising is the art of displaying merchandise in a manner that is appealing to the eyes of the customer. It sets the context of the merchandise in an aesthetically pleasing fashion, presenting them in a way that would convert the window shoppers into prospects and ultimately buyers of the product. A creative and talented retailer can use this upcoming art to breathe in new life into his store products. Passion for design and creativity are essential to be a good visual merchandiser. A perfect design process and the ability to create ideas that are different are required. Awareness of happenings in fashion world is needed so as to keep up-to-date with the dynamics of the market constantly.

Visual merchandising includes window displays, signs, interior displays, cosmetic promotions and any other special sales promotions taking place.

***Components of Visual Merchandising***

There are certain things which a retailer needs to take care while proceeding with the process of displaying his products. These components when combined together in a proper ratio will make a successful outcome.

***Make merchandise the focal point:***

The main goal of display is to showcase the products within the overall display area. Customers give three to five seconds of their attention to window display. The retailers visual message should be conveyed to the customer in that short period of time. It should not be like an unsuccessful TV advertisement, where the product is forgotten altogether and only the concept of the commercial remains in the mind of the viewer. The arrangement of window display should go with the product and should not suppress them to make it discernable to the eye.

***Right choice of colors is vital:***

Color is one of the most powerful tools in the Visual Merchandising segment. It is a visual perceptual property. Colors can be associated with emotions, special occasions and gender. It attracts attention and pulls more customers into the store. A retailer has to focus on the right choice of color that would match with the theme of display. It is not possible to satisfy everyone all the time, but it is possible to cultivate the taste of customers gradually and purposefully. A right choice of colors in the display items can turn walkers into stoppers and significantly convert them

*Contd...*

Notes

into customers. It is therefore mandatory to choose the right color for the right theme of display. A Halloween display would require black color in the display theme. Valentines theme should be ruled by red color supplemented with pink and white. A display of baby accessories should reflect light shades of pink and blue colors. A Christmas display should contain colors of red, green, gold and silver.

***Display themes to appropriately support the product:***

A theme is a display of sale items of similar categories e.g. a display of kitchen accessories. Its essential to have themes for all retail displays. They can be romantic, wild, or capricious, and capture peoples imaginations.

A good theme will lure the customer with a shopping mood into the store. Themes mainly depend upon the retailers imagination and creativity. Focusing on the right theme rather than creating a display with expensive raw materials is the key to successful window display. A shoe store theme can be a group of elves buying shoes. A theme for display of casual wears can be a group of mannequins sitting casually at a get together in different poses. Related themes will tug the heartstring of the customers and will pay off.

***Display should complement the retailers other strategies:***

The content of the display should complement the in store environment and other marketing strategies of the retailer. If the retailer has a specific logo, the colors of the display can reflect the same color of the logo. For e.g. McDonalds display, the clown is of the same color, red and yellow as in their logo.

***Cleanliness:***

Neat and clean arrangement is the foundation of an inviting a successful visual display. A beautiful display can be ruined by a cracked sign holder or an unclean display environment. Effective cleaning schedule of showcases and display fixtures is required.

***Change the display settings in frequent intervals:***

Changing the arrangement of the displays in regular intervals will initiate new interest about the products in the minds of the customer. By designing a planogram and activating changes frequently one can thus be a proactive retailer.

With globalization and the retail boom, visual merchandising is growing in leaps and bounds. It is not simply concerned about decorating a store beautifully; but must also symbolize the brand keeping the target audience in mind.

***Source:*** http://www.fibre2fashion.com/industry-article/6/547/the-art-of-visual-merchandising2.asp

## 10.4 Summary

- Good store design creates the vital difference in today's competitive marketplace.
- The exterior of most stores includes the fascia, mentioned above, the store entrance, the architectural features of the building and windows.
- The contribution of these parts of a store's exterior to an overall design can vary in importance according to the type of store format and the products on offer.

Notes

- There are a number of different types of layouts commonly found in retail stores.The layout used will be dependent on the width and depth of the product range, the nature of the product categories sold, the type of fixturing used and the constraints of the outlet in terms of size and shape.
- Store design has always been used to reinforce other elements of a retail strategy.
- Although non-store retail formats place some significant restrictions on the use of design in the selling environment, innovative approaches have often paid off as a source of competitive advantage.
- There are essentially two ways of presenting merchandise in a store. The first is to place or stack a product on some kind of fixture; stacked merchandise can be neatly arranged or, as in the case of promotional items, it can be 'dumped'.
- The second way is to hang the product; either directly onto a hanger, or onto a prong, using some kind of specially designed packaging.
- The interior of a store can be viewed in a similar way to living space.
- It comprises ceiling, walls, flooring and lighting, but instead of furniture a retail outlet houses fixtures for the presentation of merchandise, and fittings for equipment such as tills.

## 10.5 Keywords

***Ledges:*** A horizontal projection forming a narrow shelf on a wall.

***Off-shelf Displays:*** They are used to create a visual impact on customers, their place is not fixed.

***On-shelf Displays:*** They are put up to display merchandise to customer, in a retail space.

***Planogram:*** Schematic drawing of shelves and fixtures that helps in making the optimal use of available space

***Store Layout:*** Plan or design of display of merchandise available in the store

***Visual Merchandising:*** Art of implementing effective design ideas to increase store traffic and sales volume.

## 10.6 Review Questions

1. What do you mean by store layout? Discuss various types of layouts
2. Write short note on visual merchandising.
3. What are objective of a store design?
4. What is the importance of exterior design of a retail store?
5. Discuss the elements of an interior store design.
6. What are the different types of layouts commonly found in retail stores?
7. Discuss design in non store retailing.
8. What is space management?
9. What is the need for having space management?
10. What are fixtures? Why they are needed?

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11. Discuss some of the commonest types of fixtures we used in an office.
12. What are displays? Why they are used?
13. How will you account for a space allocation?
14. Being an expert in layout and design of retail store make a report on the various essentials of a good store design.
15. What are the influencing factors to retail store layout and design?

### Answers: Self Assessment

1. Customers, Merchandise
2. Geometric
3. Mixed
4. Investment
5. Design
6. Fixtures
7. Planogram
8. State allocation system
9. Complexity
10. Profitability
11. True
12. False
13. False
14. True
15. true

## 10.7 Further Readings


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# Unit 11: Retail Marketing and Branding

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## Objectives

After studying this unit, you should be able to:

- Discuss the concept of brand positioning
- State the concept of brand personality
- Identify various types of brands
- Discuss the concept of brand life cycle

## Introduction

Retail Marketing includes all the activities involved in selling goods or services directly to final consumes for personal, non-business use. Any organization selling to final consumers – whether a manufacturer, wholesaler, or retailer – is doing retailing. It does not matter how the goods or services are sold (by Person, Mail, Telephone, Vending Machine, or Internet) or where they are sold (in a store, on the street, or in the consumer's home).

Brands have been around for many years. They existed silently. Managers thought about branding once the product was developed, priced, and packaged. Branding was an after decision–not much significant for the marketers who felt that the product was more important. The tangible aspects caught more attention. Branding meant passively assigning names to pre-manufactured products. But in the last two decades the brands have got out of their slumber. They are the hot spots in total marketing process. Among the manager's chief concerns, brands reign at the top. Brands are not universally acknowledged as drivers of financial performance of a company. Not any more are they cynosures of marketing people; they constantly figure in financial strategy and valuations. When brands are so important, branding becomes even more important.

The star brands which rule the roost in the global markets are the objects of desire for marketers who still lack powerful brands. Brands like Marlboro, Sony, Kodak, Coca Cola, and BMW leave the managers drooling. These brands are outcomes of careful and well crafted branding strategies. To achieve this end, the managers need to approach branding cautiously and with dedication. But the process of branding cannot be approached correctly if confusion surrounds the concept of brand. The need is to confront the critical issue: What is a brand and what it is not.

Brand Management is the application of marketing techniques to a specific product, product line, or brand. It seeks to increase the product's perceived value to the customer and thereby increase brand franchise and brand equity. Marketers see a brand as an implied promise that the level of quality people have come to expect from a brand will continue with future purchases of the same product. This may increase sales by making a comparison with competing products more favorable.

## 11.1 Retail Marketing

There are many approaches to understanding and defining retail marketing; most emphasize retail marketing as the business activity of selling goods or services to the final consumer, but what we emphasized upon is defined as follows:

"Any business that directs its marketing efforts towards satisfying the final consumer based upon the organization of selling goods and services as a means of distribution."

### 11.1.1 Concept of Retail Marketing

The concept assumed within this definition is quite important. The final consumer within the distribution chain is a key concept here as retailers are at the end of the chain and are involved in a direct interface with the consumer.

Notes

A retailer or retail store is any business enterprise, whose sales volume comes primarily from retailing. Retail organizations exhibit great variety and new forms keep emerging. There are store retailers, non-store retailers, and retail organizations. Consumers today can shop for goods and services in a wide variety of stores. The best-known type of retailer is the department store. Japanese department stores such as Takashimaya and Mitsukoshi attract millions of shoppers each year. These stores feature art galleries, cooking classes, and children's playgrounds.

A retailer is at the end of the distributive channel. He provides goods and service to the ultimate consumers. This he does through his small organization, with the help of a few personnel. In an individual retail store there is not much scope for organization except in the sense that the shopkeeper has to organize and apportion his time and resources. The need for organization becomes essential as soon as he hires people and enters into partnership or takes the help of members of his family in running his store. A retailer deals in an assortment of goods to cater to the needs of consumers. His objective is to make maximum profit out of his enterprise. With that end in view he has to pursue a policy to achieve his objective. This policy is called retailing mix. A retailing mix is the package of goods and services that store offers to the customers for sale. It is the combination of all efforts planned by the retailer and embodies the adjustment of the retail store to the market environment. Retailing mix, a communication mix and a distribution mix. The maximum satisfaction to the customers is achieved by a proper blend of all three.

In the growing market, retail marketing has become one of the major emerging trends in the entire economical cycle. It is the retail market only which provides the consumer a basic platform to encounter with goods and a shop keeper for the first time. Retail market consists of a fixed location like boutique, store, departmental store etc., here in these location consumers meets the shop keeper and purchase goods in return of certain value. Maintaining a certain profit margin, these shop keepers sell goods to their consumers. The basic motive of these shopkeepers is to satisfy the consumers and fulfil their needs and demands.

Retail marketing strategy has become one of the basic elements of marketing strategy which includes a lot of planning and proper execution of this planning. Now let us first focus on the basic nature of retail. Firstly in retail, a marketer needs to focus primarily on the needs and desires of the customers.

Retail marketing even focuses on satisfying the customers, maintaining a proper profit margin for the owner of the goods. Customer needs are the basic key factors of retail. Retail marketing consists of 5 basic pillars, first is saving the precious time of the customers. Second is setting the right prices of the goods, third is creating a proper connection with the emotions of the customers, fourth pillar is paying the right respect to the customers and lastly solving the problems of the customer is another pillar of retail.

Creating customer loyalty is the basic function of retail, as once you create customer loyalty towards your brand it will be easier for you to stay in the market for a longer period of time. Creating customer loyalty is not a very easy task, as it takes years for a brand to create customer loyalty.

You can only create customer loyalty if you have a retail marketing plan, some of such marketing plans are the sales promotional activities like loyalty cards, loyalty one, gifts, coupons, special discounts and reward program.

Reward program includes special gifts on purchase of bulk goods and loyalty cards are special privileged cards which are offered to customers in order to provide them huge discounts and free gifts. These sorts of special sales promotional activities not only increase the sales target but at the same time increase customer loyalty also.

With so many new sales promotional programs promoted by the retail marketing strategies, now it is possible to create a healthy relationship with the customers. Previously creating

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emotional bonding with the customers was not taken into consideration, and thus customers were only treated as customers who were just supposed to pay the price of the goods. Thus, this resulted in lower customer loyalty and it gave rise to huge number of product switching.

Previously customers used to shift to other brands very easily as there did not exist any brand loyalty. But now with the extensive features of retail marketing, it has become easier for the company not only to capture a huge market but at the same time create a strong bonding with the customers. Thus, this sort of marketing strategy did not only ignite the sales target and profits but at the same time increased the brand loyalty.

The success of the retail stores, therefore, depends on customers' reaction to the retailing mix which influences the profits of the store, its volume of turnover, its share of the market, its image and status and finally its survival.

There are three main phases in the life of a retailing institution. These are:

- Innovation (Entry)
- Trading Up
- Vulnerability.

In the *entry stage*, a new retailer enters with new price appeal, limiting product offerings, Sparton Stores and Limited services. Its monopoly power over the others is its price advantage, which means that it offers products at low prices so as to get a competitive edge over its competitors.

In the *trading up* stage, the retailer starts expanding. It expands in terms of product offering, better services, and improved interiors. With all these, it starts charging a bit higher prices.

In the *vulnerability* stage, there is a gap in the market leaving some space for the new players to come in. This is due to increase in the prices by the retailer.

Normally these stages are there in the life of a retail institution. But all these may not be necessarily there in every retail institution. For instance, any retail institution targeting the upper class may start itself with a large variety & high price.

This brings to broadly identify and categorize the types of retail marketing, which are defined as follows:

1. Store Retailing
2. Non store Retailing

## 11.2 Types of Retail Marketing

Store Retail Marketing provides consumers to shop for goods and services in a wide variety of stores and it also help the Consumers to get all the needed goods and services from one shop only. The different types of store retailing are given below:

- ***Specialty Stores:*** These stores focus on leisure tastes of different individuals. They have a narrow product line with deep assortment such as apparel stores, sporting goods stores, furniture stores, florists and bookstores. These stores are usually expensive and satisfy the needs of selected consumers who have liking or preference for exclusive things.
- ***Departmental Store:*** These stores are usually built in large area and keep variety of goods under one shed. It is usually divided into different sections like clothing, kids section, home furnishings, electronic appliances and other household goods. In a departmental store a consumer can buy variety of goods under one shed.

Notes

- ***Supermarket:*** These stores are relatively large, low cost, low margin, high volume, self service operations designed to serve total needs for food, laundry and household maintenance products. Supermarkets earn an operating profit of only 1 percent on sales and 10 percent on net worth.
- ***Convenience Stores:*** These are relatively small stores located near residential area, open for long hours seven days a week, and carrying a limited line of high turnover convenience products at slightly higher prices than departmental stores. Many such stores also have added takeout sandwiches, coffee and pastries.
- ***Off-Price Retailer***: These stores sell goods at low price with lower margins and higher volumes. These stores sell goods with deteriorated quality. The defects are normally minor. This target at the persons belonging to the lower income group, though some have a collection of imported goods aimed to target the younger generation. The company owned showroom selling the seconds products is a typical example of off-price retailer.
- ***Discount Store:*** These stores sell standard merchandise at lower prices by accepting lower margins and selling higher volumes. The use of occasional discounts or specials does not make a discount store. A true discount store regularly sells its merchandise at lower prices, offering mostly national brands, not inferior goods. In recent years, many discount retailers have "traded up". They have improved decor, added new lines and services, and opened suburban branches—all of which has led to higher costs and prices and as some department stores have cut their prices to compete with discounters. Not only that, discount stores have moved beyond general merchandise into specialty merchandise stores, such as discount sporting goods stores, electronics stores, and bookstores.
- ***Catalog Showroom:*** Catalog showrooms generally sell a broad selection of high-markup, fast-moving, brand-name goods at discount prices. These include jewelry, power tools, cameras, luggage small appliances, toys, and sporting goods. Catalog showrooms make their money by cutting costs and margins to provide low prices that will attract a higher volume of sales. Catalog showrooms have been struggling in recent years to hold their share of the retail market.

## 11.3 Managing Retail Marketing

A successful retail organization understands their market, their customers, and the importance of strategic location. Because competition in the retail industry can be fierce, such organizations need the best micromarketing tools available to analyze where to place new stores, establish customer profiles, and determine best marketing practices in order to find new customers.

## 11.4 Retail scene in India

India has some sometimes been called a nation of shopkeepers. This epithet has its roots in the huge number of retail enterprises in the country totalling 12 million, about 78 percent of these are small family owned businesses utilizing only household labour even among retail enterprises that hire workers the bulk of them hire less than 3 workers. India's retail sector appears backwards not only by standards of industrialized countries but also in comparison to several other emerging markets in Asia and elsewhere. There are only 14 companies that run departmental stores and mere two with hypermarket operations. While the number of businesses operating supermarkets is higher (425 in 2004) most of these had only 1 outlet, the number of companies with supermarket chains was less than 10.

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## 11.5 Trends in Retail Marketing

At this point, I can summarize the main development retailers and manufacturers need to take into account as they plan their competitive strategies.

In India the trends are mainly in three sectors. These sectors are:

1. New retail forms and combinations continually emerge. Bank branches and ATM counters have opened in supermarkets. Gas stations include food stores that make more profit than the gas operation. Similarly, bookstores feature coffee shops.

   Even old retail forms are reappearing: In 1992 Shawna and Randy Heniger introduced peddler's carts in the Mall of America. Today three-fourths of the nation's major malls have carts selling everything from casual wear to condoms. Successful carts average $ 30,000 to $ 40,000 a month in sales and can easily top $ 70,000 in December. With an average start-up cost of only $3,000, push carts help budding entrepreneurs test their retailing dreams without a major cash investment. They provide a way for malls to bring in more mom-and-pop retailers, showcase seasonal merchandise, and prospect for permanent tenants.

2. New retail forms are facing a shorter life span. They are rapidly copied and quickly lose their novelty.

3. The electronic age has significantly increased the growth of non store retailing, consumers receive sales offers in the mail and over television, computers, and telephones, to which they can immediately respond by calling a toll-free number or via computer.

4. Competition today is increasingly intertype, or between different types of store outlets. Discount stores, catalog showrooms, and department stores all compete for the same consumers. The competition between chain superstores and smaller independently owned stores has become particularly heated. Because of their bulk buying power, chains get more favorable terms than independents, and the chains' large square footage allows them to put in cafes and bathrooms. In many locations, the arrival of a superstore has forced nearby independents out of business. In the book selling business, the arrival of a Barnes & Noble superstore or Borders Books and Music usually puts smaller bookstores out of business. Yet the news is not all bad for smaller companies. Many small independent retailers thrive by knowing their customers better and providing them with more personal service.

5. Today's retailers are moving toward one of two poles, operating either as mass merchandisers or as specialty retailers. Superpower retailers are emerging. Through their superior information systems and buying power, these giant retailers are able to offer strong price savings. These retailers are using sophisticated marketing information and logistical systems to deliver good service and immense volumes of product at appealing prices to masses of consumers. In the process, they are crowding out smaller manufacturers, who become dependent on one large retailer and are therefore extremely vulnerable, and smaller retailers, who simply do not have the budget of the buying power to compete. Many retailers are even telling the most powerful manufacturers what to make; how to price and promote; when and how to ship; and even how to reorganize and improve production and management. Manufacturers have little choice, they stand to lose 10 to 30 percent of the market if they refuse the retailers.

6. Marketing channels are increasingly becoming professionally managed and programmed. retail organizations are increasingly designing and launching new store formats targeted to different lifestyle groups. They are not sticking to one format, such as department stores, but are moving into a mix of retail formats.

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7. Technology is becoming critical as a competitive tool. Retailers are using computers to produce better forecasts, control inventory costs, order electronically from suppliers, send e-mail between stores, and even sell to customers within stores. They are adopting checkout scanning systems, electronic funds transfer, and improved merchandise-handling systems.

8. Retailers with unique formats and strong brand positioning are increasingly moving into other countries. McDonald's, The Limited, Gap, and Toys "R" Us have become globally prominent as a result of their great marketing prowess. Many more Indian retailers are actively pursuing overseas markets to boost profits.

9. There has been a marked rise in establishments that provide a place for people to congregate, such as coffee houses, tea shops, juice bars, bookshops, and brew pubs. Denver's two Tattered Covered bookstores host more than 250 events annually, from folk dancing to women's meetings. Brew pubs such as New York's Zip City Brewing and Seattle's Trolley man Pub offer tasting and a place to pass the time. The Discovery Zone, a chain of children's play spaces, offers indoor spaces where kids can go wild without breaking anything and stressed-out parents can exchange stories. There are also the now-ubiquitous coffeehouses and espresso bars, such as Starbucks, whose numbers have grown from 2,500 in 1989 to a forecasted 13,000 by 2001. Barnes & Noble turned a once-staid bookstore industry into a fun-filled village green.

## 11.6 Retail Marketing in India

Retail marketing is the most important part of the entire logistics chain in a business especially in consumer related products. Without proper retailing the companies can't do their business. Retailing is the process of selling goods in small quantities to the public and is not meant for resale. Retail is derived from the French word retailer, meaning to cut a piece off or to break bulk.

There are various ways of making goods available to consumers like:

- Company to distributor to wholesaler to retailer to consumer
- Company to salesperson to consumer
- Company to consumers (online/phone/catalog ordering)

These three are among the most common ways of making the goods available to consumers. But in India the three layered system of distributor, wholesaler and retailer, forms the backbone of the front-end logistics of most of the consumer-good companies.

In this system the company operating on all India basis appoints hundreds of distributors across the country that supplies to various retailers and wholesalers. Wholesalers in turn can either directly sell in the market or can supply to retailers. The current retailing system prevalent across the country is highly fragmented and unorganized. Anyone with some money and some real estate can open a small shop and become a retailer catering to the locality in which he opens the shop.

### 11.6.1 Reasons behind fragmented retail market

There are a number of reasons behind this fragmented retail market. Some of the major reasons being:

- Poverty and lower literacy levels.
- Low per capita income.

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- Savings focused and less indulgence mindset.
- Poor infrastructure facilities like roads etc.
- Restrictions on intra-state good movement.
- High taxes.
- No exposure to media.
- High import duties on imported goods.
- FDI in retailing is not allowed.
- Retailing is not considered as a business or industry by the government.
- Hitherto none of the business schools in India were offering specialized courses on retailing.
- Expensive supply chain.

Besides this there is other reasons too, which led to stifling of growth of organized segment of retailing sector and which instead led to highly fragmented market.

Today in India we have more than 12 million retail outlets and most of then are family run and locally owned. There are very few nationally present retail stores. In India the process of buying and selling at these unorganized retail outlets, is highly characterized by bargaining and negotiations. But slowly with increasing influence of media and urbanization the market is shifting towards organized segment. Seeing the huge market size of retail business in the country and the current level of organized segment, many players have jumped into the fray and many are waiting for the right opportunity to enter it.

## 11.7 Brand: Definition

According to American Marketing Association (AMA) a brand is a "*name, term, sign, symbol or design or a combination of them, intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competition*".

A brand in short is an identifier of the seller or the maker. A brand name consists of words, letters and/or numbers that can be vocalized. A brand mark is the visual representation of the brand like a symbol, design, distinctive colouring or lettering.

*Example:* Dominos is a brand name and the Dominos logo with it is a brand mark.

Essentially, a brand is a promise of the seller to deliver a specific set of benefits or attributes or services to the buyer. Each brand represents a level of quality. Irrespective of the fact from where the brand is purchased, this level of quality can be expected of the brand. A brand is much more complex. Apart from attributes and benefits, it also reflects values.

*Caselet*

### Case: Branding the Grocery Shopping Experience

***A few years back***

Mrs. Sharma did her grocery shopping at her local 'kirana' store. She walked across (list in her handbag), strained over the crowded counter and read out her list item by item to the shop keeper, taking care not to step on anyone's toes or

*Contd...*

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get her flowing dupatta dirty. Carrying a fully loaded bag, she then walked back home after some idle chit-chat and mock threats to the kiranawala - sometimes paying her bill, or else signing her 'khaata'. This was perhaps a weekly ritual. Alternatively, she placed her weekly order on the phone and got her grocery home delivered.

***Back to the present***

Mrs. Sharma drives around 15 minutes to the Food Bazaar store, which is nearest to her home. She strolls into the air-conditioned ambience, wheels her trolley, browses through the new arrivals, checks out the deals of the week, picks up what looks interesting - apart from what she needs as usual - and then makes her way to the check-out counter. She flashes her 'loyalty card' to earn points, her items are billed using the scanner, she pays up and leaves.

***Winds of change***

This is the sea change that is sweeping over grocery retail today. Take a stroll through residential localities in Bengaluru, Kolkata or Ahmedabad and what strikes the eye is what is known in today's parlance as 'modern retail'. Dotting the landscape are medium to large sized self-service outlets - Food Bazaar, Reliance Fresh, Spencers, Magnet, Spinach, Shoprite, Nilgiris, Subhiksha, K Value - some of which are local, while some others boast a countrywide presence.

Grocery shopping behaviour is rapidly changing with the advent of such outlets. There is fierce competition and grocers are fighting over each other to welcome the 'new age' grocery shopper. Convenience is no longer enough. Quality is taken for granted and variety is matter-of-fact.

***Source:*** www.indiaretailing.com

### Self Assessment

State whether the following statements are true or false:

1. Brands are easier to manage than the products.
2. Brands not only represent features or attributes but also the values of the parent company.

## 11.8 Brand Positioning

Brand positioning is the heart of marketing strategy. Kotler defines brand positioning as the "*act of designing the company's offer so that it occupies a distinct and valued place in the mind of the target customers*."

Bovee et al. define positioning as "*the process of prompting buyers to form a particular mental impression of our product relative to our competitors*."

Positioning may lead to cosmetic changes in the product's name, price and packaging but far more important is the psychological positioning of potential products. Also repositioning of existing products is equally important. Product positioning does something to the product, as well as something to the mind. The consumers mentally rank the products in their mind: along one or more than one dimensions. The marketer's task is to be successful in getting his product ranked first along some significant dimension of purchase. The consumers tend to remember number one.

In the increasing clutter of brands in virtually every product category, marketers are finding difficult to create a distinct place for their brands. The tangible route to build differentiation is

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not sufficient enough, given that every marketer has equal accessibility to technology. Hence what is required is a psychological way of differentiating the brand, cornering a space in the minds of the customers, so that the customers perceive it to be different. This phenomenon of cornering space in the mind of the customer, such that he feels that there is no completely satisfactory substitute for the brand, is known as positioning. Positioning is, what is explained by Ries and Trout, the gurus of marketing warfare as the battle for the mind of the customer. Brand positioning is at the heart of marketing strategy.

Positioning involves finding the proper 'location' in the minds of a group of consumers or market segment so that they think about a product or service in the desired way. Positioning is concerned with finding the optimal location of a brand and its competitors in the minds of consumers to maximize potential benefit to the firm.

The object of positioning a brand is to cause people to feel that there is no completely satisfactory substitute for the brand. A brand can be positioned in several ways: offering a specific benefit, targeting a specific segment, price or distribution. Benefit positioning can be used if the brand perceivably differs in its ability to deliver a specific benefit. The power of a benefit position will depend on how many people care about the benefit and how different the brand is in delivering it.

Target positioning requires that all a brand's marketing be focused on a specific segment. The target may be defined demographically, economically, geographically, ethnically or attitudinally. To work, a target position should cause the people in the target to perceive the brand as superior in meeting their particular needs.

Price positioning puts the brand either at the top or bottom of the category. By being the most or least expensive brand in the category, the brand takes on a specific identity. Obviously the size of the customer franchise, brand image and profit margins will be affected by the strategy. It is difficult to defend a price position.

Price positioning by distribution is an often overlooked, but effective strategy. Placing a brand in a channel that is not used by competitors can effectively differentiate it and establish a unique identity. Being the first product of its kind sold in a channel of distribution can cause people to perceive it differently.

*Caution* There are seven qualities that help to make a successful position:

- ***Relevance**:* Positions that do not focus on benefits that are important to people or reflect the character of the product will fail. Often in their search for differentiation marketers seize upon some attribute in their product which is different but in reality is of little concern to customers. This is a waste of time and money.
- ***Clarity**:* A position should be easy to communicate and quick to comprehend. Difficulty in either suggests that a position is to fuzzy to be of value to the brand leading to the phenomenon of confused positioning or doubtful positioning.
- ***Distinctiveness**:* People have few needs that are unfulfilled, and have many choices to fill the needs they have. If a brand's position lacks distinctiveness, it will be forced to compete on the basis of price or promotions which are expensive strategies that will not build brand equity in the long term.
- ***Coherence**:* There should be one common voice through all the elements of the marketing mix if the marketer wishes to create a strong position. A brand which boasts of technological superiority and premium image, but using a low price strategy may not exactly adhere to coherent norm.
- ***Commitment**:* This is especially required for a brand which is positioned by the target segment on the first day of its launch. Continuous reinforcement and patiently

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adding on to the position procures results. Important marketers often get disillusioned after a period of time and tend to look for a new position which results in a fatal mistake.

- ***Patience***: The position for a brand is not build or accepted by the target segment on the first day of its launch. Continuous reinforcement and patiently adding on to the position procures results. Impatient marketers often get disillusioned after a period of time and tend to look for a new position which results in a fatal mistake.
- ***Courage***: It goes without saying that adopting a strong brand position requires bravery. It is much easier to defend an appeal to everyone with a rather generic sales pitch. The marketer must believe that the position makes strategic sense for the brand and then rigorously work towards it.

### 11.8.1 Objectives of Brand Positioning

The objectives of brand positioning are:

- To create a distinctive place of a product or service in the minds of potential customers.
- To provide a competitive edge to a product or service i.e. an attempt to convey attractiveness of the product or the service to the largest market.
- Place an intangible service within a more tangible frame of reference.
- Help influence both service development and the redesign of existing services.
- Follow consideration of competition's possible moves and responses so that appropriate action can be taken as.
- To give the target market the reason of buying your services and then design the whole strategy.
- To provide guidelines for the development of marketing mix with each element being consistent with positioning.

The ultimate weapon used by the marketers in niche marketing is positioning and through positioning analysis marketers seek answers to the following questions:

- What is the current position of the product or service in the mind of the target market?
- What position does the firm want to own, i.e. looking for positions or holes in the market place?
- Who must the product or service out position (Manipulate what's already in the mind)?
- How can it be done (select the appropriate approach that will work for the target market?

The answer of above questions helps marketers to recognize the market place, the competition and the customer perceptions on which they can position the new offers successfully.

### 11.8.2 Positioning Process

The various types of developing effective positioning are:

- Market Positioning
- Psychological Positioning
  - ❖ Objective Positioning
  - ❖ Subjective Positioning
- Positioning Approaches

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## Market Positioning

The market positioning is defined as the process of identifying and selecting markets or segments that represent business potential, to determine the criteria for competitive success. This must be based on the following factors:

- Though knowledge of needs, wants and perceptions of the target market, and
- Benefits offered by the services.

In order to know above factors, marketers must seek answers to the following critical questions:

- What is important to target market?
- How does the target market perceive the service offering?
- How does the target market perceive the competition?
- What attributes should a service offering use to differentiate itself to make the best use of its resources?

The service provider may have a 'wish image' but as a matter of fact 'no image' exists if the customers do not perceive the image of the offering. To understand this, put following questions to yourself:

- If you don't perceive that benefit offered is different from that of competitor, do you think you are being offered something different?

The answer of above questions will lead to the fact that images, benefits, perceptions and differentiation are the perception of the customer, and not the perception of service provider.

The evaluation of the image of the offering perceived by the customer can be used to identify the crucial elements, which comprise the benefits.

## Psychological Positioning

This step involves the use of communication to convey the firm's or its offering's identity and image to the target market. It converts the needs into images and positions the offering in the customers mind. Psychological positioning enables marketers to create a unique product image with the objective of creating interest and attracting customers. Since it exists solely in the mind of the customer, it can occur automatically without any effort on the part of the marketers and any kind of positioning may occur.

There are two kinds of psychological positioning:

- ***Objective Positioning:*** The objective positioning relates to the objective attributes of the physical product. It is concerned with creation of an image of service offering that reflects physical features and functional features. Usually psychological positioning is concerned with what actually is, what exists. The objective positioning need not always be concrete.

  Objective positioning is usually used in the tourism industry. Any attraction or destination which has a unique future, that feature can be used to objectively position the attraction or destination to create an image and to differentiate it from the competition.

  Degree of objective positioning depends upon the uniqueness of features. If the features of an attraction are not unique, the objective position will be of lesser degree.

- ***Subjective Positioning:*** Subjective positioning relates to the subjective attributes of the service offering. It is the (mental perceptions) image and other attributes perceived by the tourist and not the physical aspects of the offering.

## Positioning Approaches

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There are several approaches to positioning of service offering. Service marketers may select an appropriate approach from the following positioning approaches based on the information collected during market positioning and psychological positioning. Psychological positioning creates an image but positioning approach completes the picture, using visuals and words, reinforce what the offering does best and what benefits are offered by it. Service marketers may select an appropriate approach from the following positioning approaches based on information collected during market position and psychological positioning:

- ***Positioning by Attributes, Features or Customer Benefits***: Marketers, while using this approach, place emphasis on the benefits of the particular features or attributes of the offering.
- ***Positioning by Price Value:*** 'Value for money' can be utilized for positioning the offering effectively. In the international environment price is normally not used for positioning as the customer may not identify lower price with lower quantity.
- ***Positioning by use of Application:*** Service offering is positioned on the basis of the reason for its use.
- ***Positioning according to Users or Class of Users***: This relates to consumer segments using a service offering.

*Example:* Airlines target the executive class, the frequent fliers and the tourists, Holiday resorts target, domestic tourists, on vacations for hill stations and enjoyment, adventures, travelers for trekking and religious travelers for the places of pilgrimage, and corporate bodies for business conferences etc.

- ***Position with respect to product class:*** The positioning could be based on functional benefits as well as symbolic and emotional benefits. This technique is generally used to a associate an offering with experiences that are unique.
- ***Positioning against Competition:*** This positioning approach is used to meet the competition "HEAD-ON" to bring out differences between destinations. This form of positioning had been responsible for many advertising wars in the market place. The international player avoids this approach because it may involve negative statements about other country or regions. But it is regularly employed in products and services marketing.
- ***Positioning by Endorsement:*** It involves use of celebrities or other product success.
- ***Positioning by Quality Dimensions:*** RATER (Reliability, Assurance, Tangibility, Empathy and Responsiveness) is usually used for positioning the service. Service firms choose one or combination of more than one quality dimensions to position their offering.
    - *Reliability:* Reliability refers to ability to perform the service dependably and accurately. No doubt reliability is a critical factor but in some cases it becomes essential dimensions. Telecom services, airline services, banking services cannot stay in the game without reliability. While positioning these services, reliability alone cannot be taken as positioning approach.
    - *Assurance:* Assurance is knowledge, courtesy of employees and their ability to convey trust and confidences. Trust and confidence building is an important consideration in positioning. Service providers have effectively used assurance for positioning the organization or its offering. The insurance health care and banking usually use this dimension for positioning.

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- *Tangibility:* Tangibility relates to physical facilities, equipments, personnel and communication materials. Tangibility is used by hotels, restaurants, tourism, and retailers. As the tangibles of a service are highly visible elements, they must be designed such that they are consistent with positioning approach.
- *Empathy:* Empathy relates to caring attitude, individualized attention the firm provides to its customers.
- *Responsiveness:* Responsiveness relates to willingness to help customers provide prompt service.

*Task* Name some retail brands that are positioned on:

Price, Quality, Competition, Product Class and User Class

### 11.8.3 Developing a Positioning Statement

Positioning statement is a declaration of the position our product will occupy in the mind of our target customers. While developing a positioning statement we have to assess first where our and our competitor's brand stand today. We call this market exploration. Secondly, we consider our target market segments. We then identify what is core identity or the essence of our brand, and what our value proposition is. It is better to know what criteria potential buyers use to choose one product over another.

### 11.8.4 Positioning in Action

Here are some examples of positioning statements developed by various companies and advertising agencies.

*Examples:*

1. *Energizer batteries:* They 'keep going and going and going'. It is an application-oriented positioning.
2. Complan is the complete food for growing children. This positioning is targeted to a specific segment.

### 11.8.5 Positioning Slots

We can try several permutations and combinations to position the brands. Some positioning concepts are given below:

- ***Technology Slot:*** The brand can take advantage of the pioneer lead,

*Example:* First in no frost technology, first to issue photo credit cards, first to issue credit cards with chips, first to market soft drinks through vending machines, first to introduce camera in cell phones etc.

- ***Experiential Slot:*** There are sensorial perceptions about the brand which cannot be quantified and measured.

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*Example:* Freshness of a soap, luster to hair given by a shampoo, fairness given by a cream or soap etc.

- ***User Slot:*** A brand can be slotted for specific users as Johnson's Baby Shampoo or Vicks Vaporub for children. Later more users can be included.
- ***Trendiness Slot:*** Charms is the spirit of freedom. This cigarette slot started a trend. It is consistent with the life style of the users.
- ***Repositioning a Rival Brand:*** In comparative advertising, Savlon was pitted against Dettol antiseptic which gave a burning sensation, where as Savlon did not. Such repositioning worked in favour of Savlon.
- ***New Product Category Slot:*** Unfixed deposit is a slot against the usual fixed deposits. This creates a new products category in the mind of the consumers.
- ***Attribute Slot:*** One or a combination of attributes can be used to position the brand.

*Example:* Toothpastes such as Colgate, Promise, Pepsodent etc., Head and Shoulder, Anti Dandruff Shampoo.

### 11.8.6 Pitfalls in Positioning

If a marketer attempts to position a product without careful planning, it becomes very difficult to sustain the product in the market and derive a competitive advantage.

1. Companies quite often do not realize what customers expect from a product. As a result, they position the product based on the wrong attributes or on attributes that are of no interest to the customers.

*Example:* Le Sancy, toilet soap, was positioned as a long-lasting soap, but, what consumers wanted was freshness, rather than longer life of the soap, and hence the product failed

2. ***Confused positioning:*** Marketers should not confuse consumers by meddling too much with the positioning strategies of their established brands.

*Example:* Pepsi once introduced a clear Pepsi with the name Crystal Pepsi. Consumers thought that if it was not brown, then it could not be a cola, and as a result the product failed in the market.

3. Sometimes companies try to create brand awareness among customers even before positioning the brad clearly in the market. This phenomenon, known as doubtful positioning, can lead to a bad positioning of the product in the market, and often generates a negative attitude towards the brand.

*Example:* Many of the dot com companies spent heavily on television advertising, without themselves being clear about what they were selling.

### 11.8.7 Repositioning

As markets change and new opportunities arise, repositioning is needed to build brands from their initial base. A successful brand may be rendered irrelevant if needs and circumstances of customers in its target market change. If this change is gradual and perceptible, the company can change its offerings and communications gradually and company finds itself out of tune with its

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market all of a sudden, the company has two options. It may start targeting a different market where its positioning plank is still relevant or change its offerings and communications drastically to make itself relevant to its original target market again.

But companies have being guilty of changing their positioning planks unnecessarily and far too frequently. A decision about the positioning of brand should be strictly dependent on the choice criteria of customers and the capability of the company. A company should arrive at positioning strategy after conducting through research of customers' choice criteria and an audit of its resources and capabilities. A position plank is reflection of the company's ability to serve a single or few elements of the customer's choice criteria. The capability of company and choice criteria of customers do not change as frequently as companies change their positioning.

*Notes* **Tata Sumo**

When Tata Sumo was introduced in the market, it was positioned on the "takes the rough with the smooth" and "the tough one" ideas. However, when Toyota's Qualis was introduced in the market much earlier than expected and the rural market did not turn out to be as attractive as forecasted due to poor harvests in several states, TELCO had to reposition Sumo as a multi utility Vehicle suitable for the urban market. Before repositioning, it modified the design of Sumo. It redesigned the exterior, giving it a more urban look, took better care to soundproof the cabin, and added power steering and central locking to make the sumo came out with a teaser campaign in August 2001. Its advertisement in the leading newspapers said "If you can identify the family vehicle shown here, don't bother paying us for it." Readers had to call a toll-free number to register their responses. Readers' responses varied widely. In September 2001, the new look sumo was unveiled and it received a favouarable response in the market.

### Self Assessment

Fill in the Blanks

3. Brand positioning does something to the brand and also, something to the ..... .
4. ..... for a brand may be defined demographically, economically, geographically, ethnically or attitudinally.
5. The ultimate weapon used by the marketers in niche marketing is ..... .
6. Big Bazaar has positioning itself on the basis of '.....'.
7. ..... is a declaration of the position the product will occupy in the mind of our target customers.
8. ..... of brand positioning means that there should be one common voice through all the elements of the marketing mix if the marketer wishes to create a strong position.
9. If a country (tourism) has been positioning on the basis of its architectural beauty, then the positioning is said be ..... .

## 11.9 Brand Personality

Brand personality is the way a brand speaks and behaves. It means assigning human personality traits/characteristics to a brand so as to achieve differentiation. These characteristics signify brand behaviour through both individuals representing the brand (i.e. it's employees) as well as through advertising, packaging, etc. When brand image or brand identity is expressed in terms of human traits, it is called brand personality.

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*Example:* Allen Solly brand speaks the personality and makes the individual who wears it stand apart from the crowd. Infosys represents uniqueness, value, and intellectualism.

Brand personality is nothing but personification of brand. A brand is expressed either as a personality who embodies these personality traits (For instance - Shahrukh Khan and Airtel, John Abraham and Castrol) or distinct personality traits (For instance - Dove as honest, feminist and optimist; Hewlett Packard brand represents accomplishment, competency and influence). Brand personality is the result of all the consumer's experiences with the brand. It is unique and long lasting.

Brand personality must be differentiated from brand image, in sense that, while brand image denote the tangible (physical and functional) benefits and attributes of a brand, brand personality indicates emotional associations of the brand. If brand image is comprehensive brand according to consumers' opinion, brand personality is that aspect of comprehensive brand which generates its emotional character and associations in consumers' mind.

Brand personality develops brand equity. It sets the brand attitude. It is a key input into the look and feel of any communication or marketing activity by the brand. It helps in gaining thorough knowledge of customers feelings about the brand. Brand personality differentiates among brands specifically when they are alike in many attributes.

*Example:* Sony vs. Panasonic

Brand personality is used to make the brand strategy lively, i.e., to implement brand strategy. Brand personality indicates the kind of relationship a customer has with the brand. It is a means by which a customer communicates his own identity.

Brand personality and celebrity should supplement each other. Trustworthy celebrity ensures immediate awareness, acceptability and optimism towards the brand. This will influence consumers' purchase decision and also create brand loyalty.

*Did u know?* Bollywood actress Asin and cricketer MS Dhoni are brand ambassadors for Fashion Bazaar, retail venture of the Future Group.

Brand personality not only includes the personality features/characteristics, but also the demographic features like age, gender or class and psychographic features. Personality traits are what the brand exists for.

### Self Assessment

State whether the following statements are true or false:

10. Brand personality is nothing but personification of brand.
11. Brand personality is similar to brand image.

## 11.10 Types of Brand

There are three main types of brands

- Product Brands are built based on the experience one has with the product itself.
- Service Brands are built on culture, knowledge and an experience one has with the people delivering the service.

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- Retail Brands are built on a mixture of both service and products, built on both products and experiences.

*Examples:*

- Product Brands: Coca-Cola, Nike, Sony, BMW
- Service Brands: Molly Maid, Geek Squad, a CPA, even maybe a Brand Identity house
- Retail Brands: Kroger, the Gap, Chick-fil-a

In retaining , Further we may come across

- manufacturer brands and
- own-label brands.

### 11.10.1 Manufacturer Brands

Manufacturer brands are created by producers and bear their chosen brand name. The producer is responsible for marketing the brand. The brand is owned by the producer.

By building their brand names, manufacturers can gain widespread distribution (for example by retailers who want to sell the brand) and build customer loyalty (think about the manufacturer brands that you feel "loyal" to).

They are created by producers and bear their chosen brand name. The responsibility for marketing the brand lies with the producer. Most manufacturer brands are supported by massive advertising budgets. They also have to manage along distribution channels to reach the final customers.

### 11.10.2 Own Label or Distributor or Store Brands

Own-label brands are created and owned by businesses that operate in the distribution channel – often referred to as "distributors".

Often these distributors are retailers, but not exclusively. Sometimes the retailer's entire product range will be own-label. However, more often, the distributor will mix own-label and manufacturers brands. The major supermarkets (e.g. Tesco, Asda, Sainsbury's) are excellent examples of this.

**Own-label branding** – if well carried out – can often offer the consumer excellent value for money and provide the distributor with additional bargaining power when it comes to negotiating prices and terms with manufacturer brands.

Private label products or services are typically those manufactured or provided by one company for offer under another company's brand. Examples include store brands, where the product is sold under the retailer's own brand.

There has been a significant increase of private label brands in the recent years.

*Did u know?* In Europe, Private labels now account for about 45% of products sold in supermarkets, compared to 25% in the USA. Wal-Mart, for example, has a 40% private

label representation in their stores. Many discount retailers, such as Reliance Fresh, offer almost exclusively private label products in order to cut costs.

Some retailers create their own brands within the private label category.

*Example:* 'More' products of More4U

In many countries, Private labels have been seen as low-priced, low-quality products.

*Task* Identify the retail brands that sell their private labels at their stores. Make a detailed report on any one of them. Include the details of previous and current status of that private label.

### 11.10.3 Functional and Symbolic Brands

Functional brands are designed to solve functional problems or provide functional satisfaction. The following are some functional brands.

*Example:* ***Rexona deodorants:*** Fights odour all day long

***Pepsodent:*** Fights germs that cause dental problems

***Philips CFL:*** Reduces your electricity bills

Symbolic brands cater to symbolic or psychological needs. These needs are learned. Customers buy these brands for esteem enhancement, group membership, ego gratification and deal with self concept. The following are some of the symbolic brands:

*Example:* ***Femina*** : For the woman of substance

***Elle 18***: Be yourself

***Raymond:*** The Complete Man

### Self Assessment

Fill in the blanks:

12. ..... products or services are usually those manufactured or provided by one company for offer under another company's brand.
13. Shopper's Stop, 'Start something new', is a ..... brand.

## 11.11 Brand and Life Cycle

Three stages of brand management can be identified: introduction, elaboration and fortification. The relationship between brand concept and image needs to be properly managed over these stages of a brand. The management faces a challenge of adopting specific positioning strategies in these stages depending upon what is to be achieved.

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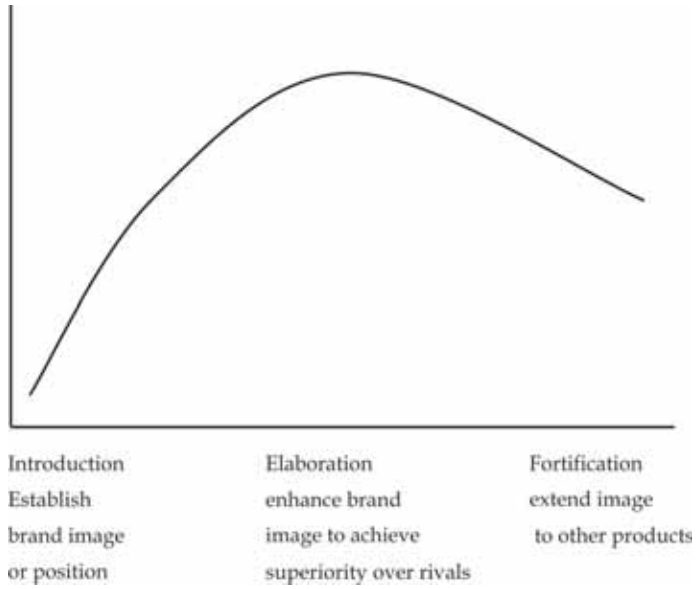
**Figure 11.1: Brand Life Cycle Stages**




### 11.11.1 Introduction Stage

At the time of a brand's entry, the key task is to establish its image or position.

*Example:* Reliance Retail has launched a new venture called Reliance Trends. The challenge at this stage is to utilize the marketing mix in such a manner that its brand image or position is established in the market-place, whatever is decided upon.

Similarly, Tata has launched its electronics store- Croma. A brand's communication must establish its image in the prospect's mind. Besides establishing the brand position or image at the introductory stage, brand managers must utilize marketing mix variables so that transaction barriers are reduced or eliminated. Reliance and Tata must ensure that information about Trends and Croma respectively, is available, and can be accessed easily.

### 11.11.2 Elaboration Stage

After introduction, competition usually follows. From being a loner, the brand now gets pitched against competitive brands. The task facing brand managers is how to enhance the brand's image so that it's perceived as superior to its rivals. Image enhancement could as well be triggered from the customer side. Over time, competitors copy the brand, resulting in the same customer perception. The brand's value now needs to be enhanced.

*Example:* Nirma's superiority in the economy segment was neutralized because a plethora of similar brands entered the market.

A brand can employ a number of positioning strategies to enhance its value at the elaboration stage. These include, positioning the brand specific to a particular need or usage occasion, (e.g., petroleum jelly's use as a hand softener could be made specific to use after washing anything; or, a watch can be made to be used while running); a feature could be added or deleted (e.g., Maggi Sauce became 'Hot and Sweet' by way of a product extension); an attribute could be improved

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(e.g., Rin with more whitening power) and finally, a brand's exclusivity or scarcity could be enhanced to increase its perceived value (restricting the brand's availability to some exclusive outlets).

### 11.11.3 Fortification Stage

Over time, the firm may branch out into manufacturing products in other classes. At the fortification stage, the elaborate brand image needs to be connected with the image of their products

*Example:* Nirma began with the economical yellow detergent brand. But over time, the company ventured into toilet soaps, shampoos, and toothpastes. The idea at the fortification stage is to connect products in different product classes with images so that they mutually reinforce each other and strengthen the image of each brand. The Nirma example illustrates this point particularly well. Originally, Nirma – the company has created a mix of brands like Nirma Beauty, Nirma Bath, Nirma Lime, Nirma Super Bar, Nirma Bar, Nirma Super Powder, Nirma Harbolina – connected with the common image and positioning of value for money.

The brands mutually support and strengthen each other. The firm fortifying a brand in this manner can gain two advantages. First, the communication costs for any single brand are reduced. Secondly, similar images can provide an impression of complementarity. Accordingly, consumers may begin to use them as a package.

*Case Study*

**Case: It Happens Only in India: A Unique Approach to Retail Branding**

At the first-ever World Retail Congress, when Pantaloon Retail was named Emerging Market Retailer of the Year, the belief that Indian retail had arrived on the world stage was further consolidated. It is clear writing on the wall that the retail sector in India is ripe with opportunities and the global gaze is riveted to the country. Retail in India is currently estimated to be a US$ 200 billion industry, of which organized retail makes up just 3 percent; i.e., $6.4 billion. By 2010, organized retail is projected to reach $23 billion. While the statistics promise great opportunity, they would also present substantial challenges. One of them is commoditization. There is a fear that the price wars in the organized retail sector will make a big dent in the brand image of these enterprises. They will need to create a mindshare and rise above price wars and shopping ambience.

Critical in this regard seems to be the focus on brand building. The retail sector is highly fragmented, with the organized segment being a very nascent minority. Sir Terry Leahy, CEO of Tesco, said in a recent interview, "In a world with infinite information and complex choices, consumers will increasingly navigate by trust." This trust will largely be an offshoot of the confidence that shoppers tend to repose in individual as well as corporate brands. In a similar vein, albeit in a slightly different context, Kim Faulkner's in his essay "Branding in South East Asia" observes that "New Asian brands are emerging, which, while drawing inspiration from the largesse of international brands, are trying to carve their own niche. What their brands are trying to do is to capitalize on the indigenous Asian cultures. What characterizes these new brands is pride in their provenance. They have recognized that internationalism does not mean trying to be western in Asia."

*Contd...*

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The idea of incorporating the local customs in the DNA of the brands is not confined to marketing gimmicks but has become an integral component of the operational structure and format of successful Indian retail brands. Subhiksha, a South India–based discount retail chain, has structured its brand around the concept of the Indian housewife's conviction of getting the best value for money for her household and bargaining with the local grocer and vendors has been a cornerstone of her strategy to achieve this. So Subhiksha has designed its promotional campaign with the slogan "Bachat mera adhikaar hai!" meaning "Saving is my right!"

The Indian socio-economic fabric is a collage of variegated customs, climates, languages, and economic makeup. Successful brands establishing a connect with the Indian consumers have more often than not shown a sensitivity towards these heterogeneous contexts. Enterprises like Big Bazaar, a low-cost hypermarket that is part of the Future Group that owns Pantaloon Retail, is one of the other retailers that has successfully adapted and designed its stores according to the Indian way of shopping while keeping in mind the geopolitical nuances. As Pantaloon's Kishore Biyani rightly says in one of his recent interviews after winning the award at the World Retail Congress, "The economic, social, and cultural diversity of Indian consumers forces marketers and retailers to view the mass of consumers not as one single market but as a 'mass of niches.' "

The Indian retailer has to innovate in order to create new demand and capture the existing one. Retail brands in India have realized this and are gearing up to meet with this challenge. There has been an attempt to reflect the cultural consciousness and economic tendencies behind the shopping orientations of their customers. Big Bazaar has managed to do this quite successfully. In his autobiography *It Happened in India*, Biyani, who has been often called the king of modern retail in India, writes, "Our store in Sangli (a small township 400 Kms southeast of Mumbai) is a bit different from what you would see at say High Street Phoenix in Mumbai. It isn't air-conditioned, instead there are air coolers installed inside the store. Also there are as many shoppers there on weekdays as on weekends. Unlike office going people in big cities, people in smaller towns do not restrict their shopping to weekends. The store factors in the local taste, preference and culture, and in that way not two Big Bazaar outlets look the same." For instance, in the Gujarat-based BB outlets, edible oils are sold loose instead of in packets because that is how the region has shopped for oils all along before the advent of modern retail. This is probably the reason why the store has become synonymous with the idea of utility shopping in India.

In the early 1990s, the positioning had to be determined according to convenience of accessing the store, shopping privacy, navigation ease, and return on exchanges. Retailers in India were the first to realize this and position their brands accordingly. Shopping in India had always been a frenzied activity, whether it was the high-street shops in central marketplaces or the small mom-and-pop stores in the busy streets. Moreover, due to the concept of individual selling—where the shopkeeper or the salesmen personally assisted the shoppers—the activity was devoid of any privacy. Added to it was the fact that as the cities got more and more crowded, parking became a nuisance. So when the Raheja Group started Shoppers' Stop in 1991 as the first operators in modern retail in the country, the brand was promoted with the central idea of private and convenient shopping and the slogan in the ad campaigns was "Shop at your own convenience."

As brand guru, David Ogilvy rightly said, "Any damn fool can put on a deal, but it takes *genius*, *faith*, *and perseverance* to create a brand." And it appears as if the Indian retailers have put their imagination to work and are gearing up to consolidate their mindshare before the Wal-Marts of the world make their presence felt.

***Question:*** What is so unique about retail branding in India?

*Source:* www.brandchannel.com/Preeti Chaturvedi

## Self Assessment

Notes

State whether the following statements are true or false:

14. Most of the organised retail brands in India are in their introduction stage.
15. At the fortification stage, the elaborate brand image needs to be connected with the image of their products.

## 11.12 Summary

- Brand Management refers to managerial activities related to increasing, maintaining, or rationalizing the value of brand through managing its tangible and intangible aspects.
- Strong Brands can be legally protected, are easy to pronounce, easy to remember, easy to recognize, attract attention, suggested product benefits or usage, support the company or product image, distinguish the product's positioning relative to the competition.
- It is not only important for the companies to create a brand, but it is equally important for the company to retain the brand. Brand management is an approach of creating the promise, making the promise, keeping the promise.
- The brands that communicate in a different manner manage to impress, to go beyond the medium that we are using to position themselves in the minds and hearts of people.
- Positioning may be defined as how a product appears in relation to other products in the market.
- As consumers, we are all influenced by the effects of a powerful brand positioning- "brainwashed," so to speak to have preference for one versus another.
- But today there are so many choices for consumers that this term has a secondary derivation- "whitewashing."
- Brand life cycle has three stages: Introduction, Elaboration and Fortification.

## 11.13 Keywords

***Brand:*** An identifying symbol, words, or mark that distinguishes a product or company from its competitors.

***Brand personality:*** An expression of the fundamental core values and characteristics of a brand described and experienced as human personality traits, e.g. friendly, intelligent, innovative etc.

***Functional Brands:*** They are designed to solve functional problems or provide functional satisfaction.

***Positioning:*** Battle for consumers' mind share.

***Private brands:*** Contain names designated by wholesalers or retailers, are more profitable to retailers, are better controlled by retailers, are not sold by competing retailers, are less expensive for consumers, and lead to customer loyalty to retailers (rather than to manufacturers).

***Repositioning:*** To build brands from their initial base as markets change and new opportunities arise.

***Store Brands:*** Private label products manufactured by one company under another company's brand.

***Symbolic Brands:*** They cater to symbolic or psychological needs

Notes

## 11.14 Review Questions

1. What is retail marketing?
2. What is the need of retail marketing?
3. What is meant by Retail Marketing of Financial Products?
4. What is the current Market Scenario of the products?
5. What are the growth factors for the products?
6. What is the consumer psyche behind various purchases in the retail market?
7. Discuss various marketing strategies.
8. Being a retail marketing manager, discus which marketing strategy you will adopt and why?
9. What do you mean by a brand? Name a few popular retail brands and what attitude you have onwards those brands.
10. Discuss the objectives of brand positioning. Give a few examples of retailers that have positioned their brands well in the Indian market.
11. Discuss the brand positioning process in brief.
12. Discuss various positioning approaches used by companies. Give examples.
13. Describe the concept of repositioning. Name a few brands that have repositioned themselves and succeeded.
14. State the common pitfalls in positioning. Give examples of brands that have failed in their positioning efforts.
15. Describe a brand's personality. Take any three retail brands that have different personalities and describe their personality.
16. Give examples of different types of brands.
17. Discuss the concept of brand life cycle.
18. Contrast subjective positioning and psychological positioning.
19. Which according to you is a better positioning approach keeping in mind the Indian retailing scenario- positioning by attributes or positioning by price? Give reasons for your answer.
20. "A brand is much more complex than the product." Substantiate.

### Answers: Self Assessment

| | | | |
|---|---|---|---|
| 1. | False | 2. | True |
| 3. | Mind | 4. | Target |
| 5. | Positioning | 6. | Price |
| 7. | Positioning statement | 8. | Coherence |
| 9. | Objective | 10. | True |

Notes

11. False
12. Private label
13. Symbolic
14. True
15. True

## 11.15 Further Readings


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# Unit 12: Retail Management Information Systems

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## Objectives

After studying this unit, you should be able to:

- Know the importance of IT in Retailing
- Trace out the Integrated Systems and Networking
- Aware about Marketing Information System

## Introduction

Retail management involves running a store where merchandise is sold. Retail management information systems include the use of hardware, software and procedures to manage activities such as planning, inventory control, financial management, logistics and point of sale transactions. Use a retail management information system in your business when you need to manage your store, finances and inventory from one office.

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Information Technology (IT) refers to the management and use of information using computer-based tools. It includes acquiring, processing, storing, and distributing information. Most commonly it is a term used to refer to business applications of computer technology, rather than scientific applications. The term is used broadly in business to refer to anything that ties into the use of computers.

Mostly businesses today create data that can be stored and processed on computers. In some cases the data must be input to computers using devices such as keyboards and scanners. In other cases the data might be created electronically and automatically stored in computers.

In this unit, you will learn about the role of information technology in retailing.

## 12.1 Importance of IT in Retailing

Information technology is one of the greatest enablers of the Collaboration between the vendor and Retailer. Wal-Mart, the largest company in the world with more than 2,700 stores and $ 217 billion in revenue last year, gets a major competitive advantage from the efficiency of its electronic product information, ordering, supply-chain management and delivery systems. It possess the influence to get manufacturers into collaborative E- business, because it can represent 5% to 30% of a manufacturer's total business. Wal-Mart requires every manufacturer to manage its own in-store inventory and uses EDI networks and its private collaborative trading hub, Supplier Link, to consolidate global purchasing. It brings 10,000 suppliers online to bid on contracts and communicate sales and inventory data. Wal-Mart also uses its networks to manage its Supply Chain and Logistics. In this kind of an environment, greater data transparency and information sharing as well the speed of response cement the supplier-retailer relationship. The same is the case with 7-Eleven Inc., with over 30,000 suppliers in all-different sizes. Even in the fashion conscious sectors of Retailing, the use of IT helps. Payless' sources nearly 80% of the 250 million pairs of shoes sold through its 5,000 stores from Asia. This represents challenges in a style-oriented business. The shoe business is very fashion driven. Many products have short lifecycles like 13 weeks. Payless is concentrating on a core vendor/core factory programme to achieve production efficiencies and stay ahead of fashion trends. The speed of interacting, enabled by It helps in competing with similar stores in the shoe business.

Computers have replaced cash registers for billing. The bar coded products using UPC and EDI are scanned for billing. The importance of information technology in retail sector stems from the importance of data. Data is nothing but information which aids decision-making.

The use of technology aids data collection. Data can be collected about consumers, frequency of their buying. This can help a retailer in distinguishing customers. The use of information technology serves as a basis for integrating the functioning of various departments. With an increase in the number of outlets, collecting and analyzing information becomes indispensable. Technology plays crucial role in this regard. Technology has been applied to some of the unique requirements of the retail business like the need for product identification, the need for quick billing and settlement of bills electronically and specialized logistics applications.

Modern technology is making information required for retailing decisions ever more accessible. It is possible to track customer buying behaviour and better analyse and understand what customers want. The integration of various modern technologies is allowing companies to access valuable information.

*Did u know?* The use of technology aids data collection. Data can be collected about consumers, frequency of their buying. This can help a retailer in distinguishing customers.

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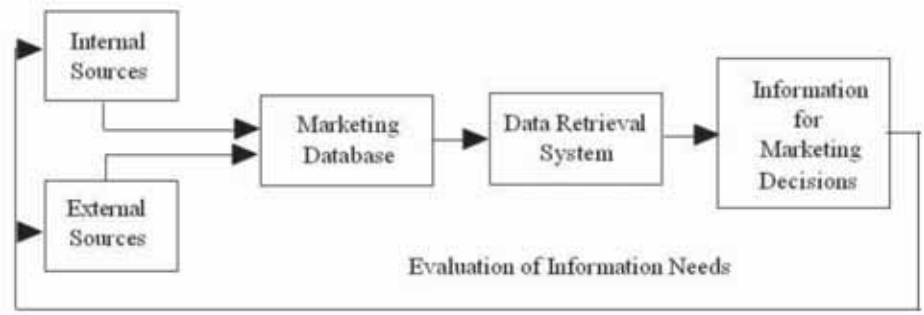
## 12.2 Integrated Systems and Networking

The technology has now become an essential tool for retailing. Some of the important applications of technology in retail sector are as follows:

### 12.2.1 Marketing Information Systems (MIS)

The term 'Marketing Information Systems' refers to a programme for managing and organising information gathered by an organisation from various internal and external sources. MIS assesses the information needs of different managers and develops the required information from supplied data in time regarding competition, prices, advertising expenditures, sales, distribution and market intelligence, etc. Information sources for MIS include a company's internal records regarding marketing performance in terms of sales, and effectiveness and efficiency of marketing actions, marketing databases, marketing intelligence systems, marketing research, and information supplied by independent information suppliers.

**Figure 12.1: Elements of MIS**




### 12.2.2 Retail Management Information System

**Figure 12.2: Components of ERP**

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### 12.2.3 Radio Frequency Identification Device (RFID)

In a retail store, RFID assists in inventory management. All items in a retail outlet sport read-only tags that contain the product code and its description, including the batch number, expiry date and price. The shelves, exit gates, and warehouses are fitted with sensors that read the information from the RFID tag and help in updating the inventory system in real-time. This way it helps in total asset visibility and tracks the inventory stocking. It also ensures better process control for products in the store. In warehouses and container depots, containers are marked with RFID chips that contain details of origin, destination, and other details. Entry and exit gates, vehicles, and cranes are fitted with an antenna that senses the RFID tags, and records and updates the system to check for any deviation in the schedule. With precise tracking of the location of pallets and containers within the warehouse, it is easy to pinpoint unscheduled movements. The system also considerably helps reduce costs and time for check-in and check-out.

### 12.2.4 Networking

In the world of computers, networking is the practice of linking two or more computing devices together for the purpose of sharing data. Networks are built with a mix of computer hardware and computer software.

Networks can be categorized in several different ways. One approach defines the type of network according to the geographic area it spans. Local area networks (LANs), for example, typically reach across a single home, whereas wide area networks (WANs), reach across cities, states, or even across the world. The Internet is the world's largest public WAN.

### Self Assessment

Fill in the Blanks:

1. In a retail store, ..... assists in inventory management.
2. ..... management information systems support distributed stores by linking them.
3. ..... is the inter-organisational exchange of business documents in structured, machine process able form.

## 12.3 Electronic Data Interchange

Electronic Data Interchange (EDI) is the inter-organisational exchange of business documents in structured, machine processable form. Electronic data Interchange can be used to electronically transmit documents such as purchase orders, invoices, shipping bills, receiving advices and other standard business correspondence between trading partners. EDI can also be used to transmit financial information and payments in electronic form. Payments carried out over EDI are usually referred to as Electronic Funds Transfer (EFT). EDI should not be viewed as simply a way of replacing paper documents and traditional methods of transmission such as mail, phone or in-person delivery with electronic transmission. But it should be seen not as an "end" but as a means to streamline procedures and improving efficiency and productivity.

Use of EDI in retail business reduces costs. It also strengthen the relationship between the retailer and the supplier. A supplier can spot trends in purchase and accordingly realign its production if there is an EDI exchange between a retailer and the supplier.

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Retail businesses have been exchanging documents electronically for over 30 years. The first standards were laid out during the 1980's with the formation of ANSI X12 and the VICS EDI Retail Users Group. During the 1990's, the major retail hubs encouraged participation throughout the supply chain by supporting standards, offering education through trading partner conferences, providing implementation assistance via the value added networks, and encouraging compliance via chargebacks for non-compliance.

Although there has been much talk of replacing EDI with XML or VAN's with the Internet, the reality of today's EDI implementations is that the original standards are still viable and heavily implemented throughout the retail industry. Millions of EDI transactions pass between retailers and their supply chain every day. Some of these transactions travel through traditional Value Added Networks, some are exchanged over the Internet, and some are sent with direct connections.

## 12.4 Bar Coding

Bar coding is a proven technology for automated data collection needs of the business. In general terms, "a barcode actually contains any given alpha numeric information encoded in the form of bars and spaces using international symbologies which are like language of the barcode." On retail products, the barcode normally contains the product ID (e.g. item code, product code etc.) which is required to be entered into the computer system to update the data at the time of billing, receiving or dispatch. With the barcode in place, the data is fed into the system automatically by scanning the barcode using a bar code scanner instead of punching the same through a keyboard.

The fast checkout and reduced queues attracts more customers and ensures that customer visit the store again and again. The Bar Code scanners at point of sales help in the elimination of queues with fast checkout by automating the data entry into system. The barcode scanner is basically a device which plugs into a computer system just like another keyboard and feed the barcode data into a computer. The benefit is that the data fed is nearly 100 per cent accurate and the whole Item code is scanned in a fraction of second. The scanners come in lots of varieties to meet varied needs of retailers. From handheld to hand-free, 1D Single Line or Omni-directional, 2D, corded and cordless, the scanners are available for almost all business needs. Hand held barcode Scanners, which are sometimes also called "barcode gun", can be a Laser or CCD (Charged Couple Device) scanner. Hands Free Scanners are normally omni-directional scanners and are essentially laser scanners. These scanners are mounted either on the table top or below the table glass to allow the user to scan the barcode from any direction for faster operations.

In addition to Bar Code Scanners, the other barcode hardware for POS includes thermal/thermal transfer printers and Portable Data Terminals (PDT). These PDTs, with high memory and with latest Windows-based or Palm-based Operating Systems for complex mobile computing applications, are also called Mobile Computers.

The printer is used to generate on-demand bar code labels (in case the items are not pre-barcoded) for received goods. Unlike normal document printers, Bar Code Printers utilise rolls of labels (die-cut, fanfold etc.) to generate the labels on adhesive labels. These printers include the logic to generate the barcode for any given data which would be read by using barcode scanner. The printers can connect to any software and enable the barcode printing for items directly from the software application.

Barcodes solutions play an important role in utilising customised in-store marketing, increasing up-selling and cross-selling opportunities, quickly locating merchandise, easily monitoring inventory and checking prices. The state-of-the art solutions based on barcode technology enables retailers to improve the customer's experience at the primary point of decision – the selling floor.

Notes

The Portable Data Terminals (PDT) allow the retailers to take the inventory status by scanning the items barcodes without need of counting them.

Electronic Data Interchange (EDI) is the inter-organisational exchange of business documents in structured, machine processable form. It has its own memory, where it can store the collected data and display the summary to user.

*Caution* Electronic Data Interchange (EDI) is the inter-organisational exchange of business documents in structured, machine processable form.

## 12.5 Customer Database Management

A database refers to the collection of comprehensive information about customers and prospects such as demographic and psychographic profiles, products and services they buy, and purchase volumes, etc., arranged in a manner that is available for easy access and retrieval. Databases allow marketers access to an abundance of information, often through a computer system such as sales reports, news articles, company news releases, and economic reports from government and private agencies, etc., that can be useful in making various marketing decisions.

A simple purchase at any retail store can enable the store to gather a vast amount of information about its customers and products. The use of systems to organise, retrieve, search and manage that data is termed as database management. Data can be with respect to products, customers, vendors and suppliers or a combination of them put together.

The elements of database management are data warehousing and data mining. Let us take the example of a customer who buys a pair of cotton chino trousers from a large department store chain in Mumbai. The customer is also a member of the loyalty programme run by this chain and visits the store frequently.

By swiping the customer loyalty card at the time of purchase, an entire information system starts functioning. The store's computer sends the information to the company's central computer, which usually hosts the data warehouse. From this data warehouse, the organisation is able to retrieve data that will give important information about the purchase made, the total number of purchases made, the colour, size and demographic data of the customer.

The data warehouse is at the core of the system, which enables the retailer to gather, manage and utilise the information needed by him to remain competitive in today's fast changing marketplace.

The manner in which companies do business and interact with their customers has changed rapidly over the years. It is now necessary to track changes in consumer demand, as consumer loyalty to a retail store cannot be taken for granted. Taken from the term mining, which means digging out something from the earth, data mining refers to the extraction of data for specific applications with the use of technology. The concept of data mining is not new, as for many years, statisticians, used to mine data manually. Technology has enabled the automation of the data mining process and has integrated it with a data warehouse, which enables the availability of data in a manner relevant for various business. Data mining can help extract information from a database that the user did not know existed. Finding a relationship between variables and customer behaviors that is non-intuitive is what data mining hopes to do.

The information unearthed by data mining can also help the Customer Relationship Management Process (CRM). By identifying specific market segments and their buying behaviour, it is possible to develop campaigns, promotions and offers which are aligned to the needs, wants and attitudes of the customer, thereby offering value as perceived by the customer.

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## 12.6 Electronic Retailing

E-tailing is the selling of retail goods on the Internet. Short for "electronic retailing," and used in Internet discussions as early as 1995, the term seems an almost inevitable addition to e-mail, e-business, and e-commerce. E-tailing is synonymous with business-to-consumer (B2C) transaction.

E-tailing began to work for some major corporations and smaller entrepreneurs as early as 1997 when Dell Computer reported multimillion dollar orders taken at its Web site. The success of Amazon.com hastened the arrival of Barnes and Noble's e-tail site. Concerns about secure order-taking receded. 1997 was also the year in which Auto-by-Tel reported that they had sold their millionth car over the Web, and Commerce Net/Nielsen Media reported that 10 million people had made purchases on the Web. Jupiter research predicted that e-tailing would grow to $37 billion by 2002.

E-tailing has resulted in the development of e-tailware - software tools for creating online catalogs and managing the business connected with doing e-tailing. A new trend is the price comparison site that can quickly compare prices from a number of different e-tailers and link you to them.

E-tailing is gaining ground. In the year 2003, clothing and apparel segment clocked online revenues to the tune of $ 3.6 billion. Online retailing is classified into three main categories:

- ***Click:*** The businesses that operate only through the online channel fall into this category. Prominent examples in this category include: Dell, Amazon.com and e-Bay.
- ***Click and Brick:*** The businesses that use both the online as well as the offline channel fall into this category. Common example includes: Barnes and Noble's.
- ***Brick and Mortar:*** This is the conventional mode of retailing. The businesses that do not use the latest retailing channels and still rely upon the conventional mode belong to this category.

E-tailing offers the consumers huge amounts of information in the form of web sites with useful links to similar sites that allows consumers to compare products by looking at individual items. The convenience of online shopping is unmatched indeed. Shopping out of your home or office reduces the stresses of waiting in lines and dealing with irritating sales people. However, E-tailing causes problems with fit, since the consumer cannot try the items on. Return policies may also act as turn offs and items can be difficult to return. The shipping and handling costs may turn the customers away. e-tailing requires technology savvy customers and this puts a limit on its potential reach. We can see that E-tailing is emerging as an interesting phenomenon in the retail industry that is on a rise despite the disadvantages associated with it.

According to a recent study:

- Presently there are 4 million Internet users in India and the number is growing.
- Computer Hardware, cinema, Books, Music cassettes /CDs, travel tickets and gifts are sold through the net in a big way.

### 12.6.1 Role of Web

It is a well-known fact that the retail industry always works on very narrow margins and the key to survival lies in optimization of resources both in space and time dimensions as well as maximization of customer satisfaction. Access to timely and even real-time information to a wide variety of channel and trading partners, sales personnel, line managers, store managers etc. is the key to achieving this. Web services technology holds out a lot of promise for the retail

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industry in this respect. It is a platform-neutral, easy to deploy set of standards for achieving business data and process integration, without going for proprietary point to point connections. It promises to connect the information providers and information consumers across a wide variety of platforms, devices and on an on-demand basis. Being based on service-oriented architecture (SOA) principles it can also form the enabling service interface layer for other emerging technologies like BAM, BPM, mobile and RFID.

Discuss about the Role of Web.

### 12.6.2 Online Retailing - Advantages

E-tailing offers unique advantages to the consumer that no other form of retailing can match. The hypertext nature of the medium allows for more flexible forms of transactions (growth of C2B and C2C) to flourish. It allows for easier comparisons across broad product categories with the evolution of shopping bots and similar mechanisms. The medium also offers flexible/ dynamic pricing mechanisms to the consumer. These evolutions reduce any friction in the online market place and stimulate the use of the web as a retail environment. In the long-run, this will benefit the marketers as well as the consumers. Further, this will penalize the marketers who thrived in market places that had entry barriers in the form of a lack of freely available information. Earlier, such a situation restricted the customers in making informed choices and led to inefficient pricing and localized monopolies.

Reasons for e-tailing coming up as a hot avenue in the retail sector can be attributed to multiple factors such as:

#### No Real Estate Costs

E-tailing does not require a retailer to invest in warehouses, showrooms or other commercial properties at prime locations. They operate through their web sites and thus save drastically on the real estate costs. The real estate costs in the metropolitan cities can be prohibitively high. Moreover, maintenance costs of a virtual store are negligible in comparison to a physical store.

#### Easy and Comfortably

The Internet offers easy and comfortable access to all the required information by a customer. Over the Internet, product information is just a few clicks away, easily accessible from the comfort of a home. Traditional retailing is quite cumbersome in contrast to e-tailing. It involves frantic search for the required product, running up and down the retail store, asking the poorly trained store assistants for help. The process involves significant wastage of valuable time. Simply put, shopping on the Internet for fifteen minutes is equivalent to a two-hour trip to the mall. Consumers prefer to save their precious time so that they can better utilize it.

#### Customer Interaction

The greatest benefit of online commerce is its ability to interact with the customers. Such an interaction allows the retailers to reach the individual customers and react appropriately to their responses. Interaction acts as a vital tool for mass customization. The common examples include online marketing of books, flowers, software and education. This has also led to greater satisfaction among the online buyers. According to a research agency, 81% of the buyers were found to be highly satisfied with their online purchases.

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### Mass Media

A supermarket is limited in its area of operation. It caters to a specific geographical location such as a city and/or its suburbs. However, a web site is globally accessible leading to a worldwide reach and an increased potential customer base.

### Search Option

With web search capabilities (which need further development) it is easier to find the particular types of goods required by a customer. The consumer decides what he wants to buy rather than the retailer offering what he wants to sell. This ultimately translates into consumer empowerment.

### User Friendly

Customers can execute transactions via the same medium the information is provided, so there is no disconnect between the desire to purchase and the ability to purchase. (Payment schemes are still evolving and therefore this advantage is likely to become more apparent in the future.)

### Effective Price Discrimination

E-tailers can use price discrimination in an effective and efficient manner. E-tailers can use previous transactions to identify the likelihood of products being purchased at certain price points and use this information for price discrimination.

### Customized Product Placement

E-tailers can change the online placement/display of a product based on the previous transactions so to increase the visibility of goods that the user is more likely to buy based on the previous encounter at the time purchase. This allows a contextual design of placement to ensure conversion of a visit/hit to the web site into a sale.

### Global Reach

Customers have a much wider choice at their fingertips (a variety of e-tail sites to choose from etc.) In this way, the web creates a global market place that brings together multiple consumers and retailers.

## 12.6.3 Factors to be considered in Developing Website

You, as a retailer, must remember the following:

### Goals and Objectives

It is absolutely necessary to identify your goals to be able to create a website that will rightfully and successfully serve its purpose. Make a list of items that you aim to accomplish through the website. Short term and long term goals must be taken into account; both will be useful for further development and adaptation of the website design. Having clear and outlined goals at the start will be useful in identifying if you have achieved your goals, the rate of which you have progressed, and what is in need of further advancement.

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### Target Audience

Just like every business needs to identify their target market, you need to identify your target audience. They are the people whom you expect to bring traffic and revenue to your website. Your goals will have an effect on who would most likely visit your website. You also need to know what common characteristics your target audience would have in order to specify what they need that you can give satisfaction to. Would your website be aiming to connect to an adolescent, to an adult, or to both?

### The Content

After specifying your goals and identifying the targeted audience, the next step is to assess what content your web site should have. Create a list of contents that would appeal to your target audience then gather the data. Sort out the contents according to your audience's wants and needs. It is advisable to experiment or do a survey to find out if your content satisfies the needs of a focus group that matches the characteristics and needs of your targeted audience. Each content should be categorized under what need it will fulfil and what page of the website it shall be included. Content planning and organization is where you should put ample time and effort into conceptualizing and creating.

### Browser platform

Different browsers have numerous compatibilities and restrictions. A web site that is primarily designed for internet surfers will dictate the use of XHTML 1.0 format, a display resolution of 1024 x 768, and CCS Level 1. The Internet Explorer (IE) is not compliant to W3C standards hence unlike Mozilla Firefox or Opera. A W3C compliant browser will most likely increase the possibility of more site visitors and broaden your options in what scripts or programs to use in for design. The browser can also restrict what image file formats you may be able to use for your website

After carefully considering the previously mentioned points, you can now begin to document the actual design and structure of your website. Considering what extent of end user interaction is also important. Do a second survey with the control group and gather data on how the website faired in satisfying their needs and wants and what points or areas should be improved. Apply the necessary pages then publish your website. If you follow these guidelines, you will have more chances of having a successful web site.

## 12.6.4 Limitations of Web

Most of the retailing ventures on web have not been as profitable as they were expected to be, the primary reasons were:

- ***Security issues:*** Security issues hold the center stage when it comes to consumer concerns while shopping through the online media. A lack of trust and privacy concerns prevents a lot of consumers from making online purchases. Consumers are also concerned with the use of their personal data provided during the online transactions.
- ***Customer retention:*** In e-tailing, an increase in the customer retention by 5% leads to a corresponding increase in profits by 25%. Most of the people buying on the Internet do so out of curiosity and this makes a repeat purchase highly unlikely.
- ***Unsuitable for certain product categories:*** In case of product categories that require relatively higher customer involvement, the e-tailing route is found to be grossly inadequate in providing sufficient information to the customers. Examples include retailing

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of products like clothes, cosmetics etc. Most customers are comfortable buying books and music on the Internet because the information required for making a purchase and the customer involvement is low. However, in case of a blue Trouser, the customer may want to know things such as: Which shade of blue is it? How does it feel on the skin? How easily does it crease? The traditional retailing does not suffer from such a problem. In the non-standard product categories, the Internet offers limited amounts of crucial information to the customer. In such cases, only the seller knows about the true quality of the trouser and this leads to an 'information asymmetry'.

- ***Shopping is still a touch-feel-hear experience:*** Some do not suffer from 'time-poverty' and shopping is still considered to be a family outing. Hence this type of an environment creates a problem of customer retention.
- ***Complicated medium:*** Ease of use is a problem, as the web design may suffer from high complexity bordering on total chaos in some cases.
- ***Navigation hiccups:*** E-tail stores do not have standardized designs in comparison to the physical retail stores and product catalogs. Therefore different user behaviors (navigation schemes) need to be learned for each e-tail store. This is a temporary issue as the evolution of the web continues.
- ***Website design flaws:*** Graphic presentation and aesthetics may not be as compelling for a web site as in case of a physical retail store or a product catalog. This is a temporary issue that may resolve with the evolution of the web design.
- ***Limited access to the Internet:*** Not all customers have access to the web, as they do to the postal system. This is a temporary issue as the evolution of the web continues.

### 12.6.5 Future Trends in E-tailing

The investment and improvements in the communication infrastructure will lead to the mass offering of electronic services in the home from several appliances. Established appliances, including the television and telephone will be equipped to provide simple access to electronic products and services. Furthermore, the increased power and portability of computers will facilitate easy, carefree, and daily use of electronic shopping options.

#### Consumers

As e-shopping becomes the most sensible alternative to procuring needed goods and services, consumers will abandon their traditional views of shopping. No longer will a routine trip to a supermarket or mass retailer, such as Wal-Mart, satisfy the e-consumers expectations. The effort of the trip will require an experience that one may find in the most expensive stores of Beverly Hills. For example, the King of Prussia Mall in Pennsylvania contains a Bose® outlet, which also houses a Starbucks coffee shop. The "sipping" room is enhanced with music supplied through Bose® audio products and innovations, such as speakers as small as a Rubik's Cube, but with the sound of a much larger unit.

#### Brick and Mortar Retail

This new shopping experience segues into the changes required by suppliers. As stated above, retailers and manufactures will have to rethink their physical selling strategies. Existing retail shops will not survive if the fail to adapt the changes in consumer needs and behaviors. Stores

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may become a place to showcase new products and services that will be purchased later electronically. However the opposite pattern may initially be an even more important vehicle for retailers. Shoppers will use the Internet to quickly gather product information, including price, to save time in comparison shopping and unsuccessful outings due to lack of stock. Once a product and location decision has been made, the consumer will load up the kids into the SUV and venture in the brick-and-mortar world of shopping.

### e-Marketing

In time, however, the dominance of electronic purchasing is inevitable. Suppliers should bet their lives on it, especially if the product is not particularly differentiated or unique. Marketers must rethink their strategies and target audience. Mass marketing will not have the same appeal to the individual consumer. Marketers must utilize the massive databases that will be built through consumer "clicks" on the Internet, to personalize company advertising efforts. Developers of their company's e-shopping technology must also do extensive research on how consumers use the Internet and how they search for products. Where traditional media has a generally passive audience, the Internet is more pro-active in its use. It will take more effort for companies to place their product where the consumer will encounter it. Instead of a mass bombing the, which occurs in television advertisements, Internet marketing must be like a smart-missile that can anticipate and intercept the consumer's product searches.

### Suppliers

Manufactures and retailers must also evaluate their relationships. "Manufactures have spent the past twenty years dominated by their retail customers." The chain of products to consumers has been drastically altered already. Manufactures are no longer separate from their consumers. They have new opportunity to establish a direct link with the end-consumer companies, such as Dell Computers, have proven that direct selling to the consumer is more efficient and satisfying to the customer. The only advantage of a retail electronic shopping site is the collection and convenience of many products in one location or site. Manufacturers can still fight back by forming joint web-ventures. The retail store may eventually be the biggest casualty of the new technology. It may one day be painfully ironic to a company like Wal-Mart, who utilized EDI and other electronic means of buy, selling, and communicating to become the most efficient and successful retailer, that the same technology will make them obsolete as an organization. Wal-Mart will most likely adapt to the changes and survive. One day you may enter a Wal-Mart store to receive a doctor's examination and have your solar-powered SUV detailed, while listing to a Garth Brooks comeback concert.

### Vision

The future of electronic retail is indeed the future of retail. However, electronic shopping will transcend the mere transaction and become a pillar of daily virtual activities. On-line purchasing activities will be only a part of a new e-lifestyle. It is the transition and acceptance of the virtual world as part our concrete world that will allow e-shopping to conquer the retail consumer market. Electronic shopping will be faster and cheaper. It will be a time-liberator. The retail power of the Internet will be the catalyst of a new e-lifestyle age that will enable people to be more social, recreational, and fulfilled that appeals to ones social needs, entertainment needs, creativity, and curiosity. Retailers will have to provide an almost elitist shopping

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## Self Assessment

Fill in the blanks:

4. ..... stores do not have standardized designs in comparison to the physical retail stores and product catalogs.
5. Not all customers have access to the web, as they do to the ..... system.
6. As ..... becomes the most sensible alternative to procuring needed goods and services, consumers will abandon their traditional views of shopping.
7. Different ..... have numerous compatibilities and restrictions.
8. The ..... benefit of online commerce is its ability to interact with the customers.

## 12.7 Summary

- The importance of formulating a retail market strategy is understood by all small and big retailers. To build a competitive advantage that can be sustained, retailers need to pay special attention to aspects like price, location, merchandise, service and communications.
- Operations, purchasing/logistics, market research, financing and technology, which determine the strategic positioning of the firm are also equally important.
- Retailers are facing an increasingly competitive environment due to the relatively slow growth of the retailing sector, increasing maturity and concentration of many retailing sectors, the emergence of new retailing formats such as the internet, changes in consumer expectations and expenditure, and competition from international retailers.
- The major drivers of competition within the industry are the threat of new entrants, the treat from substitute forms of retailing (that is, intertype competition), the bargaining power of producers, the bargaining power of shoppers, and the intensity of rivalry between firms.
- The relative balance between competing retailers and their competitive retail marketing strategies also influences the intensity of competition.
- E-tailing has resulted in the development of e-tailware — software tools for creating online catalogs and managing the business connected with doing e-tailing.
- A new trend is the price comparison site that can quickly compare prices from a number of different e-tailers and link you to them.

## 12.8 Keywords

***Electronic Data Interchange:*** It is the structured transmission of data between organizations by electronic means.

***Enterprise Resource Planning:*** A business management system that integrates all facets of the business, including planning, manufacturing, sales, and marketing.

***E-tailing:*** Selling on retail goods on internet.

***Marketing Information Systems:*** It refers to a programme for managing and organising information gathered by an organisation from various internal and external sources.

***Radio Frequency Identification:*** It is the use of an object applied to or incorporated into a product, animal, or person for the purpose of identification and tracking using radio waves.

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***Retail Management Information System:*** It includes the use of hardware, software and procedures to manage activities such as planning, inventory control, financial management, logistics and point of sale transactions.

## 12.9 Review Questions

1. Discuss about the Importance of IT in Retailing.
2. What do you know about Integrated systems and Networking?
3. Explain about Marketing Information system.
4. Describe about Retail management Information System.
5. What are the components of ERP?
6. Discuss about Electronic Data Interchange.
7. Explain about Bar Coding.
8. Discuss about Customer Database management.
9. What do you know about Electronic Retailing?
10. What is limitation of the Web?

### Answers: Self Assessment

| | | | |
|---|---|---|---|
| 1. | RFID | 2. | Retail |
| 3. | EDI | 4. | E tail |
| 5. | Postal | 6. | E Shopping |
| 7. | Browsers | 8. | greatest |

## 12.10 Further Readings


*Books*

Sivakumar, A., *"Retail Marketing"*, New Delhi: Excel Books

Sudarshan, R., Prakash, S. Ravi and Subrahamanya Sarma, M. (ed.), *"Retail Management: Principles and Practices"*, New Delhi: New Century Publications

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# Unit 13: Private Labels and Retail Franchising

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## Objectives

After studying this unit, you should be able to:

- Describe the importance of private labels
- Identify the popular private labels in India
- Discuss the concept of retail franchising
- State the advantages and disadvantages of retail franchising

## Introduction

Retailing in India is gradually inching its way toward becoming the next boom industry. Retail industry in India is expected to rise 25% yearly being driven by strong income growth, changing lifestyles, and favorable demographic patterns. Organized retail is on the threshold of a boom in India. But as companies line up to grab a bigger and bigger slice of the retail pie, another battle is likely to change the face of the industry, the one between the manufacturer brands and the retail chains private label brands, which are far from being just cheap generics. Private labels, or store brands, are those owned and sold by retailers in their stores typically at a lower price because of minimal marketing and advertising expenses. Worldwide experience shows that as retailers become more powerful, they have increasingly focused on their own brands at the expense of manufacturer brands.

Franchising is a special form of licensing in which a parent company (the franchiser) grants another independent company (the franchisee) the right to do business in a prescribed manner.

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In this arrangement, the franchisor makes a total marketing programme (including the brand name, logo, and the method of operation) available to the franchisee. Usually, the franchise agreement is more comprehensive than a regular licensing agreement in as much as the total operation of the franchisee is prescribed.

## 13.1 Private Labels

A private label brand, often referred to as an in-house brand or store brand, is that which is owned by the retailers themselves.

*Example:* ***Shopper Stop:*** STOP, Kashish, LIFE, Vettorio Fratini, Elliza Donatein, and Acropolis.

***Westside:*** Gie, 2F4U

What works for private labels, according to retailers, is that consumers trust a retailer brand to sell quality products. People buy goods from a chosen grocer, from whom they buy loose biscuits, rice, cooking oil and other staples because of the assurance of right price and quality. The success of private labels finds its roots in this practice. The product retains its price attractiveness. Private labels tend to be 5 to 20 per cent cheaper than established brands. Since retailers are able to cut out middlemen, they pass on the cost benefit to consumers.

Retailers also get the upside. They not only make more profits by selling private labels than the brands (margins are 60 per cent more than what they get from FMCG companies), these labels help differentiate themselves from their rivals. And in the long run, they can use the private labels to attract customers. Private labels started with retailers wanting to offer cheaper substitutes. This was for two reasons:

1. One, having a private label meant that retailers could negotiate a better margin from the manufacturer.
2. And the other, when they had private labels it was a differentiating factor.

*Example:* While every shop sold a Coca-Cola and Pepsi, a private label meant that the store now had something that other stores did not. It is also observed that some of the retailers tend to create higher quality products. They no longer say "buy us because we are cheap", instead today; they are saying "buy us because we are the best".

By offering high quality products, many private labels have started charging more than regular manufacturers. Today, retailers have realised that by having top quality private labels they can differentiate themselves from other stores and be a destination store.

*Example:* Tesco in Europe has a range called the Tesco Finest line. It does have a Tesco Value line, which is cheaper, but the 'Finest' line only sells premium products at premium prices. Tesco's 'Finest' chocolate, for instance, sells at 50 per cent premium over, say, Cadbury's. Similarly, its yogurt sells at more than 50 per cent premium over Danone and other yogurts.

Retailers are now doing everything it takes to create premium brands. They advertise on television, take up brand-building exercises, and most importantly, they focus on developing a better product than the existing manufacturers' brands. The same is expected to happen in India as Indian organized retailing matures over a period of time. And this is expected to happen faster than other developing countries.

The major advantage coming with a private label to retailer is that is the factor of differentiation that a retailer can have with private labels. But in order to create such differentiation the retailer

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should be successful in positioning the private label against the national brand in such a way that a private label should be considered as equivalent as or better than the national brand. So reaping the benefit of such differentiation is a long term strategy for a retailer, as creating a private label as equivalent as or better than the national player is a long term process and involves a lot of commitment in terms of time and efforts from the retailer.

### 13.1.1 Factors to be considered while going for private labels

Private labels won't work by just keeping the products cheap. Retailers must look at developing good quality and value-added products. Also, they must make sure that they don't over exercise the private label option. If they fall into the trap of using too many private labels, they will end up losing customers. It has been seen that when retail chains rely heavily on private labels, customers feel they lack choices. Many retailers have suffered due to this.

*Example:* Sainsbury is a classic example. The UK-based retail chain was a mainline traditional retail chain, but when it used too many private labels, customers did not find regular brands at its stores, and as a result, sales dropped.

By this it can be understood that a retailer need to be careful when he is coming with more number of private labels in his stores. Customers expect more choices; they need private labels along with various national players in a product category. Even if the private labels are doing good sales as compared to national brands, the retailers need to focus on national brands in order to retain the customers for long run.

*Task* Identify the most popular private labels from across the globe and find out about their performance in the local and international market.

### 13.1.2 Private Labels in Indian Retail

In India organized retailers like Bharti Retail, Aditya Birla Group, Shoppers Stop, Megamarts, Nilgiris, Pantaloon Retail India Limited and Godrej are some the important retailers who have come out with private labels.

#### Bharti Retail

Bharti Retail, Wal-Mart's joint venture partner in India, have bought eight private label in total including Great Value line of food (flour, dry fruits, spices, cereal, and tea) , George Apparel. The Private Label lines are going into the Cash and Carry format (Best Price Modern Wholesale) and discount convenience (Easyday). Equate, a brand for pharmacy and health and beauty items, has been introduced only in the hand wash category as of now in Easyday stores. Other Wal-Mart private labels introduced in India include Home Trends (home furnishing), Mainstays (plastic containers, kitchen accessories), Kid Connection (toys, clothing), Faded Glory (footwear) and Athletic Works (athletic shoes, equipment) and Astitva, a line for Indian ethnic wear.

#### Aditya Birla Group

More retail out lets from Aditya Birla Group offers Feasters brand (fruit squash, biscuits, fruit syrup, Instant Fruit Mix Powder, Noodles). More Brands (various grocers). 110 Per Cent (toilet cleaners, detergents, soaps,) and Paradise Room and Air Fresheners, AU79 (Deodorant) and Fresh-O-Dent toothpastes and toothbrushes.

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### Shoppers Stop

Shoppers stop offers Kashish, Haute Curry, Vettorio Fratini and Elliza Donatein private labels in its products offerings. Life' T-shirts for men, while 'Stop' as ladies western wear.

### Vishal Megamart

Vishal Megamart's offers salt and toothbrush under its 'Vneed' brand.

### Pantaloon Retail India Limited

Pantaloon Retail India Limited offers "Fresh n Pure, Cleanmate, Tasty Treat, Caremate, Sach brands in food and FMCG; DJ&C, Knighthood, John Miller brands in men ˜˜$%˜˜s apparel; Tasty Treat in food segment; In the baby diapers segment Care Mate; In the Electronic Bazaar offers refrigerators, washing machines, air conditioners, fans, toasters, kitchen mixies in the brand name KORYO.

*Caution* We can see that the number of private labels from Pantaloon Retail India Ltd. is comparatively more than the other retailers. This is because Pantaloon Retail India Limited is expanding its business and growing faster compared to other organized retailers in India.

At present the organized retail in India is about 3 to 4% only, the rest is unorganised retail i.e. the kirana stores, organised retailing is growing faster than ever, hence in the coming years Retail consumers can see more private labels in the retail stores and have more options in their selection. We can see the competition becoming intense between private labels and national brands and competition among the private labels from different retailers in the coming years.

## 13.1.3 Performance of Indian Private Labels

In food and beverages, for instance, Aditya Birla Retail's Feasters Noodles Family pack contributes 40 per cent of the revenues from the category. Kitchen's Promise pickles are outselling Mother's Recipe, and sales of Feaster's Instant Drink Powders are more than double those of Tang sales. In homecare, the brand 110 Per Cent toilet cleaners have achieved 20 per cent of the category sales and Paradise Room and Air Freshners contribute to 38 per cent of the category sales. Even personal care products are doing well. AU79 Male Deodorant has already gathered market share of 6.5 per cent within three months of launch. And Fresh-O-Dent toothbrushes contribute to 15 per cent of the category sales.

Thomas Varghese, CEO, Aditya Birla Retail, says, "Our brands have performed very well against the FMCG brands across a range of food and non-food categories." Aditya Birla's private labels cover seven brands and over 290 products and variants. The same can be said for Spencer's and Future Group. Mohit Kampani, vice-president, merchandising, food & FMCG, Spencer's Retail, said, "Our private labels have double-digit market share in food (10-20 per cent) and beverages (8-10 per cent), home care (10 per cent) and personal care (10 per cent)." Spencer's sells private labels under the Spencer's Smart Choice name. It is targeting 20 per cent market share across the categories in the next three years.

Devendra Chawla, head (private labels) food and FMCG, Pantaloon Retail India Limited, said: "Fresh n Pure, Cleanmate, Tasty Treat, Caremate, Sach in each case, we have 15 to 40 per cent market share in the categories in which we operate". We hope to have 25 to 30 per cent share for

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our private labels in respective categories." Anand Ramanathan, manager, business performance services, KPMG, noted that some of the major food and grocery retailers' average 20 to 30 per cent private label penetration, peaking at around 50 per cent. Processed food and homecare products are witnessing more heat from private labels because consumers are more open to brand switches in these categories, while personal care is a little tough to crack. Naimish Dave, director, OC&C Strategy Consultants, noted, "Currently, the contribution of private labels for some players has even touched 40 per cent-plus, from 10 to 12 per cent."

Future Group has already tasted the success with its Tasty Treat brand which is just behind Frito Lay in the potato chips segment. In the baby diapers segment Care Mate commands a whopping 41% of in-store sales leaving Huggies behind. Future group's highly successful brand John Miller has been spun off into a separate entity to compete Peter England from Madura and John Players from the ITC Group. Similar is the experience at RPG Spencer's Retail. Samar Sheikhawat VP of Marketing said "We have seen our Smart Choice cookies, diapers and *agarbattis* sell more than market leaders across the store chain. Besides, the lower pricing with quality being on a par, the down trading customer has prompted these higher sales".

*Example:* Godrej Appliances which introduced EON range of White Goods Home Appliances to be sold through its sister company Godrej Lifespace after tasting the success in EON premium brand of Air Conditioners, Microwaves Refrigerators and Washing Machines has begun a market research to introduce Dish Washers. Godrej Appliances has said it will grow 30% yearly for the next 3 years.

*Case Study*

## Case: Private label: Owner's pride, neighbour's envy

Ramya Gowda is a typical middle-class Indian shopper — price-sensitive and always on the lookout for discounts, sales and freebies.

No wonder then that while on a shopping spree, the 32-year old banker and mother of one will scan shelves for the cheapest but quality products.

She is especially particular about brands in categories like soaps, toothpaste, shampoo, cosmetics and biscuits. But regarding products like atta, rice, handwash, cereals, or even jeans, T-shirts and churidars, she prefers selling out a little less and buying 'in-house' products — those sourced locally by the retailer.

She recently purchased a 200ml bottle of 'in-house' handwash in a hypermarket. This cost her ₹33 while the known brands were priced upwards of Rs45.

BPO professional Yatish Rawat purchased a kg of in-house frozen peas for '85. Before sealing the deal, Rawat studied the cold-chain in the supermarket and compared prices of all the available frozen peas' brands. The in-house one was the cheapest as the rest commanded over Rs130 a kg.

Welcome to the world of private labels. Still a small chunk of the retail chain, these own labels or in-house brands are moving ahead at a blistering pace propelled by low rates. These constitute a meagre 5-10% of any product category, say experts.

According to a spokesperson from Bharti WalMart, private brands in FMCG, food, apparel, stationery make up over 15-20% of sales at Bharti Retail's Easyday and Easyday Market stores. The key principle is they should be equivalent to existing brands, says Pinakiranjan

*Contd...*

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Mishra, partner, retail, Ernst &Young, adding that "at the same time to the consumer, they should cost less".

The prices of own labels can be less anywhere between a minuscule 4-5% to as much as 25% than known brands purely on account of direct sourcing from local vendors, and the absence of any branding or marketing costs as they are sold only within the store. Thus, against the 10-15% margins that familiar brands bring to retailers, in-house counterparts garner upwards of 15%, say experts.

Amitabh Mall, partner and director, Boston Consulting Group, says margins in private labels in staples like sugar, groceries can even range between 15-25%. These labels are more seen in categories where the consumer is not brand conscious and has been used to buying loose products, or in categories where there is a dearth of known players. Thus, groceries and cereals are prime segments for retailers to roll out in-house packets. "We also have own labels in categories like paper tissues, floor cleaners, tea powder," says Jamshed Daboo, CEO, Trent Hypermarkets, adding that these are present in all the 15 stores of Star Bazaar.

It really doesn't matter whether the atta or handwash is of brand A or B as long as they serve the purpose, says the avid shopper Gowda. "For years, I have been buying non-branded jeans and they last as long as any branded pair," says Gowda, though other shoppers like Rawat would buy only branded apparel and restrict their in-house purchase to groceries.

The retail format is another chief determinant of own labels. Mall says that in a supermarket kind of set-up, in categories like atta or groceries, these labels can range from 50-90% of sales. This happens as the limited space of 2,000-3,000 sq ft in a supermarket makes it permissible to stock only limited brands and the retailer will choose his own labels.

Contrast this with a hypermarket, where no space constraints exist and retailers have to stock all the available brands. "Here, own labels in the same category of atta or groceries can constitute just 20-25% of total sales due to presence of several other known brands," said a supermarket manager in Bangalore.

According to industry observers, own labels in stores are growing in double-digits. "We currently have over 150 SKUs (stock-keeping units) spread across 22 categories and will add over 50 SKUs to our portfolio this year," says Trent's Daboo.

Mohit Kampani, chief, merchandising and operation, Spencer's Retail, talks about a series of discounts, extra products are offered to promote trials of own labels.

However, the picture is not all that rosy. Mishra says often retailers are unaware of the intelligence behind the product as they have just sourced it from vendors. "Hence, there are chances of inconsistency sprouting regarding the quality," he adds.

Experts say unlike famous brands that are owned by FMCG players which do a wide array of activities like research on consumer behaviour, studying the nitty-gritty of the product, retailers here just source the product and do a quick launch. "Suppliers can cut corners. There have been quality issues concerning own label cereals of retailers," says the supermarket manager, adding that once quality issues crop up, own labels lose steam.

***Questions:***

1. Do you think private labels are here to stay? Why or why not?
2. Is the title of this case study justified?

***Source:*** www.dnaindia.com

Notes

## Self Assessment

Fill in the blanks:

1. Kashish is a private brand of ..... .
2. Finest Line is a store-brand of ..... .
3. ..... are the brands owned and sold by retailers in their stores typically at a lower price because of minimal marketing and advertising expenses.
4. A private label is also referred to as an in-house brand or a ..... brand.
5. Faded Glory is a private brand of Bharti Retail in the ..... category.
6. AU79 deodorant is slowly becoming a popular player in the market. It is a private label of ..... .
7. KORYO is a private label of ..... .
8. Future Group is enjoying success with its snacks brand ..... , which is just behind Frito Lay in the potato chips segment.
9. Godrej Appliances which introduced EON range of White Goods Home Appliances to be sold through its sister company ..... .
10. Future Group spun off ..... to compete with Peter England.

## 13.2 Franchising

Franchising is seen as both an expansion strategy as well as a distribution strategy. Numerous companies that have successfully exploited franchising as a distribution strategy in their home market are adopting the same strategy to exploit opportunities abroad also. Burger King, McDonalds and other US fast food chains with operations in Latin America, India and European countries are good examples of such firms. Another common form of franchising is where the franchisor supplies an important ingredient (part, material, etc.) for the finished product.

*Example:* Coca Cola and Pepsi foods have franchise arrangement with their bottling units all over the world. They supply the concentrated syrup to the bottlers. Similarly, in India you can notice NIIT training centres all over India, which look similar and provide the same training programmes with same fee structure. All these training centres are the franchisees of NIIT. Some of the major forms of franchising are: manufacturer-retailer systems (such as automobile dealership), manufacturer-wholesaler systems (such as soft drink company with its bottlers), and service fm-retailer systems (such as fast food outlets).

Franchising is basically a specialized form of licensing in which the franchiser not only sells intangible property (normally a trademark) to the franchisee, but also insists that the franchisee agree to abide by strict rules as how it does business. The franchiser will also often assist the franchisee to run the business on an ongoing basis.

While licensing works well for manufacturers, franchising is often suited to the global expansion efforts of service and retailing.

*Example:* McDonald's, Tricon Global Restaurants (the parent of Pizza Hut, Kentucky Fried Chicken, and Taco Bell), and Hilton Hotels have all used franchising to build a presence in foreign markets.

Notes

There are different types of franchise systems:

- ***Territorial franchise:*** This kind of franchise is for a very specific geographical area with territorial override for the franchisee.
- ***Mobile franchise:*** The privilege to sell store merchandise extends to many other areas.
- ***Co-management:*** The franchiser and franchisee jointly manage the franchise business, with more involvement in the day-to-day affairs by the former.
- ***Co-owned:*** Going against the tenet of the franchise system, the franchiser has a greater stake in the business by jointly owning it with the franchisee.
- ***Lease:*** The involvement of the franchisee is limited only to the extent of renting out the premises to the franchiser.

*Caselet*

## Case: Want to Buy an Adidas Franchise?

For over 80 years the Adidas Group has been part of the world of sports on every level, delivering state-of-the-art sports footwear, apparel and accessories. Today, the Adidas Group is a global leader in the sporting goods industry and offers a broad portfolio of products. Products from the Adidas Group are available in virtually every country of the world. Our strategy is simple: continuously strengthen our brands and products to improve our competitive position and financial performance. 1. Adidas-Footwear, apparel, accessories, 2. Reebok-Footwear, apparel and accessories, 3. TaylorMade-Adidas Golf-Golf Equipment: metalwoods, irons putters, golf balls, footwear, apparel and accessories, 4. Rockport-Dress, casual and outdoor footwear, apparel and accessories, and 5. CCM-Hockey-Hockey equipment and apparel.

Activities of the company and its around 170 subsidiaries are directed from the Group's headquarters in Herzogenaurach, Germany. It is also home to the Adidas brand. Reebok Headquarters are located in Canton, Massachusetts. TaylorMade-Adidas Golf is based in California. The company also operates creation centres and development departments at other locations around the world, corresponding to the related business activity. Adidas Sourcing Ltd., a fully-owned subsidiary headquartered in Hong Kong, is the worldwide sourcing agent for the Adidas Group. Sport Performance The guiding principle of the Adidas Sport Performance Division is to equip all athletes to achieve their impossible. Adidas Sport Performance brings its passion for great products to athletes in all sports and mainly focuses on four key categories globally: football, running, training and basketball. The Sport Style Division is the home of Originals, defined as authentic sportswear, the Fashion Group, which is the future of sportswear, and Style Essentials, the fresh sport-inspired label made accessible for style-adopting youth. Together they offer consumers products from street fashion to high fashion, all uniquely inspired and linked to sport.

***Source:*** www.franchisebazar.com

### 13.2.1 Advantages of Franchising

The advantages of retail franchising are as follows:

- Your business is based on a proven idea. You can check how successful other franchises are before committing yourself.

Notes

- You can use a recognised brand name and trademarks. You benefit from any advertising or promotion by the owner of the franchise - the "franchisor".
- The franchisor gives you support - usually including training, help setting up the business, a manual telling you how to run the business and ongoing advice.
- You usually have exclusive rights in your territory. The franchisor won't sell any other franchises in the same region.
- Financing the business may be easier. Banks are sometimes more likely to lend money to buy a franchise with a good reputation.
- Risk is reduced and is shared by the franchisor.
- If you have an existing customer base you will not have to invest time looking to set one up.
- Relationships with suppliers have already been established.

*Task* Make a detailed report on the franchise of premium retail brand Burberry in India.

### 13.2.2 Disadvantages of Franchising

The disadvantages of retail franchising are as follows:

- Costs may be higher than you expect. As well as the initial costs of buying the franchise, you pay continuing royalties and you may have to agree to buy products from the franchisor.
- The franchise agreement usually includes restrictions on how you run the business. You might not be able to make changes to suit your local market.
- The franchisor might go out of business, or change the way they do things.
- Other franchisees could give the brand a bad reputation.
- You may find it difficult to sell your franchise - you can only sell it to someone approved by the franchisor.
- Reduced risk means you might not generate large profits.

### 13.2.3 Franchising Trends in India

Following are the franchising trends in India:

- The Education sector dominates the Indian franchising scenario, although Retail is fast catching up.
- Most of the franchisors are relatively new and small.
- Several large Indian corporate houses are also going the franchising way.
- Newer and innovative concepts being introduced.
- Substantial interest from international franchisors as well as Indian business houses for master franchises.
- Franchising is now spread across the country, thereby providing opportunities to entrepreneurs everywhere.

Notes

### 13.2.4 Retail Franchising within India

- Grew initially in the apparel and footwear sectors has gradually grown to cover a wide variety of sectors including food, consumer durables, jewellery, books, home decor etc.
- Two varieties of Retailers:
  - The manufacturer-retailers-typically Product Distribution Franchises-have been around for a while.
  - The aggregators-typically Business Format Franchises-only now beginning to show up:
- Existent and likely to be successful only in smaller formats
- Substantial action also happening in non-metro locations.
- Thereby spreading organized retailing over a larger footprint
- Has had to contend with the peculiarities of the India real estate markets
- Result-MG (Minimum Guarantee) has become the key driver

### Self Assessment

State whether the following statements are true or false:

11. Franchising is a distribution technique.
12. Franchising is basically a specialised form of licensing.
13. When the franchise is co-owned, the involvement of the franchisee is limited only to the extent of renting out the premises to the franchiser.
14. Franchiser usually sells a number of franchisees in the same territory.
15. Retail franchising in apparels and footwear sectors were the first ones to gain popularity in India.

## 13.3 Summary

- Private labels have come a long way over the last three decades. They started with retailers wanting to offer cheaper substitutes.
- Retailing in India is still very primitive. At the moment, private labels are less than 5 per cent of the retail business and still have a long way to go.
- Indian retail is extremely attractive for investors and it offers a proposition that can't be seen anywhere else in the world.
- Only in China and India can retail chains have as many stores as they have in the US. Private labels will have a huge role to play in this.
- In India, the growth of private labels has been phenomenal and is slowly gaining more store space.
- As these private brands create an identity for the retailer, there is a lot of work that goes into the pre-launch phase.
- Franchising is a special form of licensing in which a parent company (the franchiser) grants another independent company (the franchisee) the right to do business in a prescribed manner.

Notes

- A Franchise System results from a contractual agreement between a franchiser and a retail franchisee, thus allowing the latter to conduct a given form of business under an established name as per a particular business format in return for an initial fee and a percentage of monthly gross sales as royalty.

## 13.4 Keywords

***Co-management franchise:*** The franchiser and franchisee jointly manage the franchise business, with more involvement in the day-to-day affairs by the former.

***Franchisee:*** It is an individual who purchases the rights to use a company's trademarked name and business model to do business.

***Franchiser:*** A party in a franchising enterprise that ultimately owns the rights, trademarks and proprietary knowledge of the specific business entity.

***Franchising:*** It is a special form of licensing in which a parent company (the franchiser) grants another independent company (the franchisee) the right to do business in a prescribed manner.

***Lease:*** A contract by which one party conveys land, property, services, etc., to another for a specified time, usually in return for a periodic payment.

***Private labels:*** These are brands owned and sold by retailers in their stores typically at a lower price because of minimal marketing and advertising expenses.

***Territorial franchise:*** This kind of franchise is for a very specific geographical area with territorial override for the franchisee.

## 13.5 Review Questions

1. Describe the concept of private labels. Give examples of popular private labels.
2. Why do you think retailers opt for private labels? What are the advantages of having private labels?
3. What, do you think, is required on the part of the retailer to make private labels a success?
4. Retailers are always trying to create premium brands. Why is this so?
5. "Private labels won't work by just keeping the products cheap." Substantiate.
6. Is it necessary that growing and expanding retail chains will have more private brands? Why or why not?
7. How have the private brands performed in India? Make a comparison between the private brands of Shoppers Stop and Pantaloons.
8. "Franchising is seen as both an expansion strategy as well as a distribution strategy." Discuss.
9. Describe the different types of retail franchises. If you were a retailer looking to go the franchising way, which one would you choose and why?
10. Discuss the advantage and disadvantages of retail franchising.

### Answers: Self Assessment

1. Shopper's Stop
2. Tesco

Notes

3. Private labels
4. Store
5. Footwear
6. Aditya Birla Retail
7. Pantaloon Retail
8. Tasty Treat
9. Godrej Lifespace
10. John miller
11. True
12. True
13. False
14. False
15. True

## 13.6 Further Readings


*Books*

Berman and Evans, *Retail Management: A Strategic Approach*, New York: Macmillan Publishing Company

Lusch and Dunne, *Retail Management*, Cincinnati: South-Western Publishing Co.

Pradhan, Swapna, *Retailing Management: Text and Cases*, 2nd Edition, New Delhi: Tata McGraw-Hill

*Online links*

http://dare.co.in/opportunities/retail-franchising/the-growth-of-private-labels.htm

http://www.wikinvest.com/concept/Private_Label_Trends

http://www.franchising.com/howtofranchiseguide/choosing_a_retail_franchise.html

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# Unit 14: Supply Chain Management

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## Objectives

After studying this unit, you should be able to:

- Discuss the concept of negotiation in purchasing
- State the supply chain relationships
- State the principles of Supply Chain Management
- Discuss the concept of retail logistics

## Introduction

Have you ever wondered, as you sip your coffee at a Barista outlet where the coffee beans come from? Or even the cheese used in a McDonald's burger? Could it be possible that you might be drinking coffee made out of coffee beans grown in Brazil, and that the cheese in your burger comes all the way from Europe? Is this difficult to imagine? As difficult as this may be to believe, in today's world it is as possible as it is probable.

Notes

Supply Chain Management (SCM) maximizes profit by integrating three key flows across the boundaries of the companies that form the supply chain: flow of value (product/materials), information, and funds. Successful integration or coordination of these three flows produces improved efficiency and effectiveness for business organizations.

Logistics is one of those aspects of business, whose importance is many times greater than what it would seem to be. It involves the technique of managing and controlling the flow of goods, energy, information and other resources like products, services and people from the source of production to the marketplace. As consumers get increasingly demanding and markets increasingly competitive, companies devise ways and methods that ensure they stay ahead. Logistics provides new opportunities, for example, by providing coffee beans from Brazil or cheese from Europe, to outlets in India, at costs that permit these products to be competitive in Indian markets.

## 14.1 Components of SCM

Supply Chain Management, or simply "SCM", is the management of the two-way flow of materials, equipment, finances, information, and manpower resources within and among organizations to ensure the efficient and fast delivery of goods and services to the end customer. It involves the oversight of synchronized movement of these logistics from the supplier to the manufacturer, wholesaler, and retailer, until the end product reaches the consumer.

Supply chain management was never a strategic issue in the past, when sourcing and delivery of logistics took a backseat to manufacturing. The emergence of new information technologies, however, changed the business landscape. Now organizations have the necessary tools to do business at a much faster rate. Companies that do not move their goods and information around quickly enough do not survive because they simply don't get their new products to the marketplace before their competitors do.

A basic supply chain management system has five components:

- ***The plan***, which refers to the overall strategy of the SCM program including the development of SCM metrics to monitor.
- ***The source***, which refers to the suppliers who'll provide you with goods and services necessary for you to run your business.
- ***The 'make'*** or manufacturing component, which refers to the execution of processes needed to produce, test, and package your products or services.
- ***The delivery***, which refers to the system for receiving orders from customers, developing a network of warehouses; getting the products to the customers; invoicing customers and receiving payment from them.
- ***The return***, which is the system for processing customer returns and/or supporting customers with problems with the products they received.

Planning, sourcing, making, delivering, and returning are the five components to supply chain management. Companies need a plan that is efficient in that it is cost effective, valuable to its customers, and provides high quality products or services. Finding a reliable source to deliver the goods is challenging and takes time. Making the product requires testing, packaging and preparation before it can be delivered. Delivering the product may sound easy but there are other steps involved. Educating carriers on safety through training seminars is also a good investment for the company. Creating an invoice system is also part of the delivery component. The final component is to develop a place where defective products will be returned.

Notes

## 14.2 Types of Supply Chain

The term "supply chain" gives rise to associations of serial cooperation where materials and products are closely correlated throughout a chain of value-creating activities, which are like pearls on a string. Practically speaking, the relationships between the implicated companies are often quite complex. Some relations can be rather close and stable, while others are more short-term and ad hoc in nature.

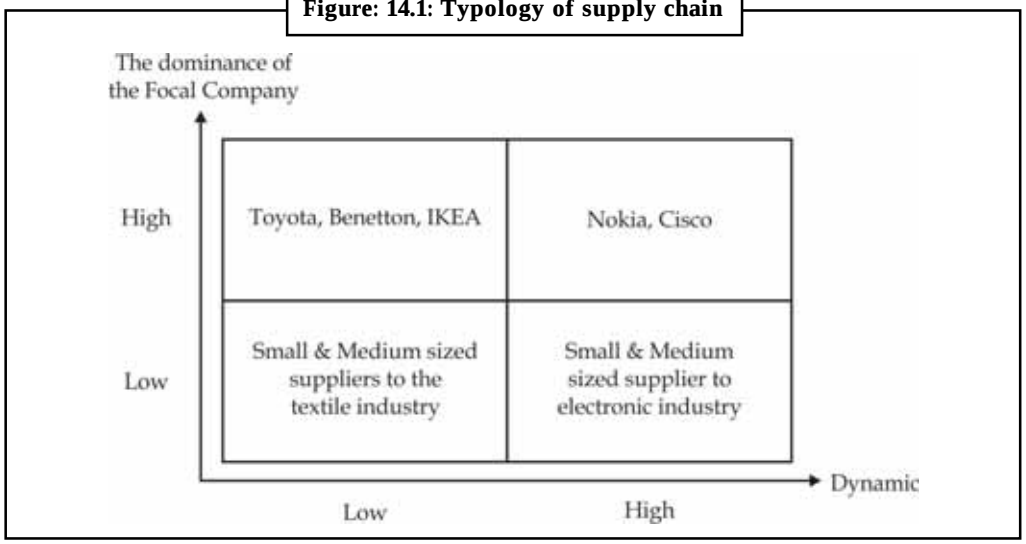
The supply network is a more complete term than supply chain. As supply chain management has become a generally accepted term in the business community.

There are many different types of supply chains, Harland (2001) has suggested four main types, each of which has distinctive characteristics and specific demands on the cooperation between participants. These classifications are based on two dimensions:

- Dynamic versus stable supply chains
- Dominant company versus balanced power distribution in the supply chain

By combining these two dimensions, four generic supply chain types result. These types are shown in figure 14.1.

**Figure: 14.1: Typology of supply chain**




***Type-1: Dynamic/low level of influence from the company in focus:***

This type operates under dynamic conditions while the company in focus has only limited influence on the other participants involved in the supply chain. The dynamic conditions could be explained by frequent internal process changes, due to multiple product configurations or external market conditions, with a myriad of competitors as well as many new product launches. The low degree of influence exerted by the company in focus may be explained by the fact that the company does not contribute a great degree of value for example, in the form of volume or innovative products/processes, to the other supply chain participants. In this situation, the most important activities in relation to the other companies involved to motivate them to participate in an integrated cooperation and to secure a fair distribution of risks and benefits. Examples can be found with the smaller sub-vendors in an industry.

***Type-2: Dynamic/high degree of influence held by the company in focus:***

In this type of supply chain the focus company has power/influence over the other participants. In this situation, the focus company will typically, as a result of their purchasing power or

innovative ability/image, be an important cooperative partner for the other links in the supply chain. A company such as B&O will, following this principle be an attractive customer for many suppliers, as it would generally be seen as a mark of quality to be a key supplier to B&O. another example is Nokia, who due to their size and innovative product development, will lend value to the images of their customers and suppliers. In this type of example, the focus company will be in a position to pick and choose their cooperative partners rather than being chosen, for example, because they have implemented VMI or because they live up to specific requirements made on retails shops regarding product availability, shop decoration/furnishings, and education of personnel.

***Type-3: Static/focus Company has a low level of influence***:

This supply chain works under stable conditions, both internally and externally. Total cost effectiveness will often be the primary aspect of competition. Focus will be on increasing effectiveness within the logistics processes, including improving processes, integrating information systems, reducing inventory, and making full use of capacity. In order to realize these forms of increasing effectiveness, the focus company must be able to motivate the other participants as well as give them fair portion of the resulting savings relative to the risks that they have taken. Examples can be found among small suppliers in the process industry or the textile industry.

***Type-4: Static/focus Company has high degree of influence***:

In this type of supply chain the focus company enjoys a high degree of influence over the other parties involved. This situation indicates that the dominant company can choose its cooperation partners and make the necessary decisions regarding the organization of the supply chain, as well as increasing its effectiveness. A typical focus company of this type would be IKEA, whose product line can remain stable over a long period of time.

This illustrated classification of the main types of supply chains can aid the individual company in its effort to identify the type it most closely resembles, and which activities the company should focus on when building relationships with other companies.

## 14.3 Purchase Negotiation

Purchasing refers to the acquisition of goods and services needed to support the various activities of an organization, at the optimum cost and from reliable suppliers. Purchasing involves defining the need for goods and services; identifying and comparing available supplies and suppliers; negotiating terms for price, quantity, and delivery; agreeing contracts and placing orders; receiving and accepting delivery; and authorizing the payment for goods and services.

Negotiation in the purchasing process covers the period from when the first communication is made between the purchasing buyer and the supplier through to the final signing of the contract. Negotiation can be as simple as trying to obtain a discount on a case of safety gloves through to the complexities of major capital purchases. A purchasing professional must aim to be successful in their negotiations with suppliers to obtain the best price with the best conditions for every item that is purchased.

The emphasis in negotiation moved away from lowest price scenario to negotiating with fewer vendors to obtain the lowest price with the best service, quality and conditions. The aim for companies were to reduce overall spends rather than negotiate lowest price with a large number of vendors, which did not give the best overall result. The negotiated long-term contracts with a smaller supplier base have produced more of a partner relationship between buyer and supplier. The relationship can become less adversary which benefits buyer and vendor. In a partner type or relationship the buyer will encourage the vendor to increase quality and service and the

Notes

vendor knows that by doing this the partnership will continue with a renewed contract with guaranteed sales.

Purchasing staff should enter all negotiations with clearly defined objectives. Without having objectives the possibility for the purchasing professional to concede on price, quality or service is significantly raised. The negotiator should enter into discussions with the vendor with precise objectives that they wish to achieve for their company. The objective should not be absolute and should allow for some flexibility. However, the negotiator should also ensure that they do not deviate from the objectives and allow themselves to negotiate on areas that were not part of the discussion. For example, a negotiator may have worked with the vendor on their objectives on price and service, but not quality. When the vendor starts to discuss quality, the negotiator should refrain from any agreement where they are without a set objective.

Negotiation is an important part of the role of the purchasing professional. It is a skill that is learnt and training can help purchasing staff in understanding what is needed when negotiating with vendors.

*Did u know?* Purchasing staff should enter all negotiations with clearly defined objectives. Without having objectives the possibility for the purchasing professional to concede on price, quality or service is significantly raised.

### Tips for Retailers

Learn how to negotiate with vendors to receive the best pricing and terms on products with these negotiation tips.

*Note* Negotiation is an important part of the role of the purchasing professional.

1. ***Be Prepared:*** Being prepared and informed is the greatest advantage a retailer can have going into vendor negotiations. Learn as much about the supplier and its products as possible. How do their prices compare to the competition? What level of service do they provide their customers? Vendor negotiation preparation also includes setting goals to determine what you want and what you can live with.
2. ***Always Tell the Truth:*** Deception tactics, such as bluffing or falsification, may do more damage than good in the vendor negotiation process. Lying is not only unethical, but it can be difficult to maintain. While being honest, be careful not to give away your bargaining power. It's not necessary to tell everything you know, but when you do tell... tell the truth.
3. ***Show Your Potential:*** If you are meeting with a potential vendor for the first time, odds are he/she may know nothing about your company. Begin the negotiation with some history about your retail business. Explain any future expansion plans and let the vendor know how doing business with you will help them.
4. ***Ask About Incentives:*** The whole idea behind negotiating with manufacturers and suppliers is to receive the best price, payment terms, advertising allowances and even exclusivity. Start by asking what incentives you qualify for and let the negotiations begin from there. Don't be afraid to ask for what you want.
5. ***Mention the Competition:*** It is okay to mention the vendor's competition in the negotiation process but don't disclose any pricing or other confidential details. There is nothing wrong with letting a supplier know their competitor is in a good position, whether it is real or perceived.

Notes

6. ***Find a Fair Compromise:*** Just like the retailer, the vendor must make a profit to stay in business. Vendor relations should be treated as collaboration rather than conquest. As you negotiate a good deal for your retail business, consider the outcome for the supplier.

*Caution* Just like the retailer, the vendor must make a profit to stay in business.

7. ***Think Long Term:*** Establishing a solid, trustworthy relationship with a supplier can only help your retail business. Vendors, who feel the customer will be loyal, may concede to even more incentives in order to maintain a long-term partnership.
8. ***Take Your Time:*** Never feel pressured to buy from a salesman. If you're not satisfied with the negotiating process, ask for time to think about the offer.
9. ***Get it in Writing:*** As the negotiation process comes to a close, make sure the offer is put to paper. Don't sign any sales contract unless it matches the verbal agreement.
10. ***Practice Makes Perfect:*** Not everyone is a natural negotiator. It takes time to learn when to speak, when to be silent and how to read body language. The more you negotiate and sharpen your skills, the better you'll get.

### Self Assessment

State whether the following statements are true or false:

1. Purchasing also involves identifying and defining the need for goods and services.
2. Negotiations in purchasing are always centered on getting discounts.
3. Purchasing professionals should enter into negotiations with clearly defined objectives.
4. Retailers should use deception in negotiation process to win over the negotiator.
5. Purchasing refers to the acquisition of goods and services needed to support the various activities of an organization, at the optimum cost and from reliable suppliers.

## 14.4 Retail Supply Management

An efficient coordination within the supply chain of an organization is known as supply chain management. A typical supply chain would include producer, agents, brokers, wholesalers, retailers, and consumers. A retailer must know all the key parties in the supply chain from promulgated, producers to the end-user. By understanding each party's goals the retailer can strategically devise their supply chain plan keeping in mind the constraints, environmental issues and factors related to product availability.

### Duties of a Merchandise Manager

Generally merchandising is looked after by the retailer personally as far as small size stores are concerned. However, in large retail stores like shoppers stop, pantaloons, Chennai Central, there are professionals to deal with this vital function of the retailing. It is very much possible that one retail store has got multiple merchandise managers depending upon specific categories. Merchandise managers basically are to look into buying the best product at the reasonable price. This in turn, makes it necessary for them to perform the basic functions like planning, organizing, directing, coordinating, and controlling the merchandising process as a whole.

Notes

***Planning:*** This is the first basic step for merchandise manager to be successful in his endeavour. Since, once the season starts the retail store may not have the time to fine tune their merchandise plan. Based on the previous sales data a sales forecasting chart is prepared. Further based on the available resources of the store the budgeting has to be done. The budget as well as the sales data helps the buyers plan what to buy? and, what are other financial limitations for the present year's purchase.

***Organising***: Merchandise manager has to organise the merchandising process which starts with collecting the sales forecasting data and then proceeding onto the budget. Further all the activities related to merchandising planning are to be initiated and seen that they work to achieve organisational goals. Merchandising being the most important function of the organisation, organising the process is an essential function.

***Directing***: It is the responsibility of a merchandise manager to not only guide the buyers regarding what and how to purchase but also to train them to work efficiently. It is essential on the part of the buyers to be vigilant about the quality and price aspects. Merchandise manager has to direct from time to time as per the market situation.

***Coordinating***: The essence of merchandising lies in coordination. The merchandising manager needs to coordinate with various people to achieve the required results. A retail store requires many products at a given point of time. This in turn is handled by many buyers. An efficient merchandising manager needs to coordinate with all the buyers as well as the seller parties. All these activities run parallel to each other. Efficient coordination is therefore essentially needed.

***Controlling***: At any given point of time multiple factors influence the business of a retailer. Therefore it is possible that a retail store is unable to achieve its targets in merchandise performance due to such factors. It is the duty of a merchandise manager to look into the reasons and apply control. Corrective measures taken in time can minimise losses to the store at the same time may be instrumental in maintaining goodwill of the firm.

## 14.5 Supply Channel and Relationships

Supply Chain relationships have their historical origins in the Japanese keiretsu structure. Keiretsu is an example of a group of firms using supply chain strategies to achieve a common purpose. Suppliers, with some degree of vertical ownership with the manufacturer, enjoy high volume and long-term supply contracts. The keiretsu did not need to have a typical cross-organizational structure because of its traditional relationship. However, the keiretsu offers an insight of how suppliers enjoy close ties with manufacturers. Firms establish ties with each other on the basis of a mutual belief - exchange personnel; share technology and information; in effect sharing both the risk and rewards of the relationship.

The supplier – buyer relationships have seen a paradigm change in the transition from Materials Management to Supply Chain Management. The supply chain structure has been sculpted on the Japanese keiretsu. But, Japan has a culture where the keiretsu is possible. How does this reflect on SCM in general? Before we discuss this question, the question we need to focus on first is: What are the different types of supplier - buyer relationships?

There are three types of relationships:

- Transactional
- Collaborative, and
- Alliance

Notes

Types of relationships are described in greater detail below:

1. ***Transactional Relationships:*** The most common and most basic type of relationship is "transactional." Virtually all buying firms will have transactional relationships. For example, Directorate General of Supplies and Disposal (DGS&D) is a government organization under the Ministry of Commerce. The organization provides procurement services to Central and State Government Departments/Organizations, Public Sector Undertakings and Autonomous Bodies, by placing Rate Contracts for common user items and contracts against their ad-hoc demands. This is a typical transactional relationship. This type of relationship simply means that neither party is especially concerned with the well-being of the other. It is neither good nor bad. Transactional purchases lend themselves to e-procurement and, in some cases, reverse auctions.

   ***Characteristics of Transactional Relationships:*** Transactional relationships have several characteristics. To start with, the relationship is formal. It is characterized by an absence of concern by both the buyer and the seller about the other party's well-being. They see the relationship as a zero sum game i.e. what one party wins, the other loses.

   The transactions are also seen as a series of independent deals. Each transaction is entered into on its own merits. Therefore, there is limited contact between the buyer and the seller. There is also little or no basis for collaboration and learning from each other.

   Basic data relating to technical data, special features, costs, and forecasts, etc. are not shared. As these are arm's length transactions, the focus is on price. For example, DGS&D uses open tenders for each transaction. Both, the buyer and the seller, try to get the best price. There is no openness in such a relationship.

   If there is any cost analysis, it precedes the procurement transaction. It is done separately by the buyer and the seller, and they do not share data. Since the prices are established by market forces, neither buyer nor supplier will rush to the other's assistance in bad times or when problems arise.

   Most of the procurement effort is in establishing rules, regulations, and procedures governing such transactions. Therefore, little purchasing time and energy are required to establish prices, as market forces establish prices in transactional relationships.

2. ***Collaborative Relationships:*** The awareness of the interdependence and necessity of cooperation is the key difference between collaborative relationships and transactional ones. Organizations perform a series of value-adding activities working together by recognizing the interdependency and need of cooperation, to provide benefits to both parties. These include cost reduction, improved quality, reduced time to market, and the leveraging of supplier technology.

   The three most important factors required for a successful collaborative relationship between a buyer and a supplier are:

   (a) Two-way communication,

   (b) Responsiveness to supply management's needs, and

   (c) Clear product specifications.

   Collaboration happens because both parties are aware that money enters their supply chain (or supply network) only if the chain's end products are cost competitive. When collaborative relations replace the market forces employed by transactional procurement there is overall improvements in many areas. There is controlled competition, benchmarking, and advanced supply management pricing practices. The end results are lower total costs, higher quality, reduced time to market, and reduced risk of supply disruptions.

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An example of a collaborative relationship is between Tata Motors and Mahendra Ugine. Tata Motors has a large requirement of alloy steel billets for its Forge Division at Jamshedpur. Of the large number of possible suppliers, Tata Motors chose Mahendra Ugine as one of the three suppliers with whom they negotiate prices and quantities for their different requirements, based on quality, R & D, timeliness of supply, process capability, and after sales service ability. The criterion was not price, but the value delivery of the seller. Based on their past performance, Tata Motors would reward its strategic partners with a larger proportion of the total orders. This acts as an incentive to perform better than the others.

As both parties recognize their relationship is long term, their interdependence and the need for cooperation, this is reflected in their continual effort to mutually work together towards cost reduction and improved quality. For example, Mahendra Ugine offers new alloy developments to Tata Motors to develop components with improved specifications and lower costs. Such acts extend the relationship between the two parties.

3. ***Supply Alliances:*** Supply alliances, go one step further, these relationships are based when there is institutional trust between the buyer and the seller. A high level of recognized interdependence and commitment is present in such relationships. There is a visible atmosphere of cooperation. The buyer and the seller address potential conflicts and resolve them openly. When problems occur, the focus is a search for the root cause, not to assign blame.

Alliances are not legal entities, but mutually beneficial and open relationships wherein the needs of both, the buyer and the seller, are satisfied. They are similar to collaborative relationships, but stronger. But, these are difficult to develop, because supply alliances only work when the buyer and the seller are able to develop and manage institutional trust.

Properly configured, supply alliances reap incredible benefits. Sellers are willing to invest in customized machinery, tools, information systems, delivery processes, etc., due to the long term relationship with the buyer. This gives the buyer faster throughput and allows for product differentiation. It also leads to improved overall quality as the product integrity increases.

Sellers also accumulate specific know-how of the buyers market and requirements by working together. This accumulated specialized information and language allows both the buyer and the seller to communicate and coordinate effectively with each other. They are both less likely to have communication breakdowns that result in errors. The final result is higher quality, faster development times, and lower costs for the customer.

The focus of most supplier alliances is achieving the simultaneous objectives of continuous improvements along with squeezing cost out. Negotiations and renegotiations occur in a win-win manner.

An example of a supply alliance in India is between General Motors (GM) and H.P. Pelzer (India) Ltd. Alliances are very difficult to establish, however, the Pelzer alliance was made possible because a similar relationship existed between GM, Germany, and H.P. Pelzer, Germany. For their plant at Hallol, GM developed all their automotive insulation parts from Pelzer. They chose one supplier from the many who could make their parts. GM and Pelzer actively participated together in process control and process improvement. Pelzer was connected through an information system with GM. Both parties used cross-functional teams that would meet from time to time. In return, Pelzer willingly invested in redesigning the insulative package to Indian conditions.

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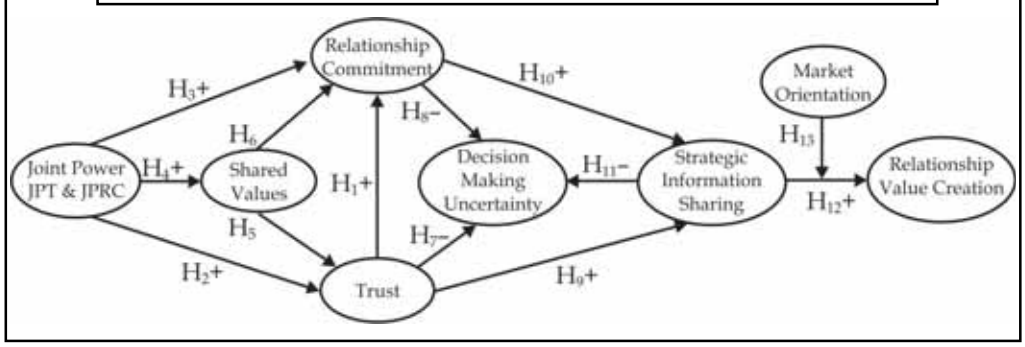
An alliance is a living system that progressively evolves with the objective of creating new benefits for both parties. The alliance partners share a vision of the future in the area of the interface. Ethics take precedence over expediency. The relationship is adaptable in the face of changing economics, competition, technology, and environmental issues.

In most supply alliances, the use of supplier certification is common. By improving the process, the manufacturing quality is raised, which reduces requirements to inspect for errors. The result is improved quality at lower total cost.

Executive level commitment and alliance champions protect the alliance from incursions by nonbelievers.

### Conceptual Model for Retailer-Vendor Relationship

**Figure 14.2: Conceptual Model for Retailer-Vendor Relationship based on Commitment Trust Theory**




The variables of Models are:

***Trust and Relationship Commitment***: Confidence in an exchange partner's reliability, credibility, integrity, and benevolence, results in trust, the latter is strongest when it is perceived to be reciprocal. Trust, the foundation for business relationships, is a positive, powerful force in stimulating channel relationships; it has been shown to increase long-term orientation and influence relationship commitment. When an exchange partner believes that an ongoing relationship with another is so important as to justify maximum efforts in order to maintain and endure it, relationship commitment is manifested; a long-term orientation with future goals and outcomes that benefit both exchange partners is an important characteristic of relationship commitment

***Commitment-Trust Theory***: Morgan and Hunt (1994) posit that commitment and trust mediate variables essential to understanding relationship marketing; relational exchange is the conceptual basis for the theory. The vital bond between commitment and trust signifies that channel partners avoid opportunistic behaviour and work towards mutual benefit and long-term gain, establishing the foundation for a positive, productive relationship. Furthermore, trust and commitment are antecedents for strategic partnering; long-term inter-firm relationships based on identifying and achieving strategic goals, with the objective of delivering value and profitability to stakeholders.

***Joint Power***: Joint power denotes situations where a firm and its partner are equally dependent and interdependence and bonds between firms are high. It is constructive because commitment and trust are stimulated as equal dependency and interdependence increase. Whilst an increase in interdependence occurs, shared values and governance structures emerge as part of the relationship development process. Reciprocity is a mutual exchange of positive interactions or benefits between two or more actors in a channel relationship. It is included as a measure of joint

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power because it denotes sharing, helping, and equality. Reciprocity in exchange relationships is important because it establishes patterns of behaviour, revealing and reinforcing personal and organizational norms and values.

***Shared Value:*** Shared values are also viewed as the cornerstone of corporate culture; they are used to set norms in organizational environments, resulting in corporate stability, efficiency, and effectiveness. When employee and organizational values are congruent, managerial commitment is enhanced, resulting in a stronger, more focused work effort, and a greater regard for organizational objectives. This paper posits that shared values between channel members will strengthen relationship commitment and its foundation, trust.

***Decision-Making Uncertainty:*** Decision-making uncertainty, defined as "the degree to which an individual or organization cannot anticipate or accurately predict the environment," has two components, environmental volatility and environmental diversity. The former relates to rapidity and velocity of specific market or customer demand changes; the latter pertains to uncertainty in the competitive environment.

***Information Sharing:*** Retailers and vendors who enter into strategic partnerships use data and technology to integrate demand and supply chains. While competition has traditionally been between organizations, it is now among networks. Information sharing enables retailers and vendors to function as a network. It can be defined as the extent to which retailers and vendors openly share operational, tactical and strategic information that will benefit the retailer-vendor relationship, enhance supply chain coordination and ultimately enhance end-use customer satisfaction.

### Self Assessment

State whether the following statements are true or false:

6. Transactional relationship means that both parties are especially concerned with the well-being of the other.
7. The awareness of the interdependence and necessity of cooperation is the key feature of collaborative relationships.
8. Supply alliances relationships are based on a high level of recognised interdependence and commitment.
9. Commitment-trust theory states that presence of a vital bond between commitment and trust signifies that channel partners do not avoid opportunistic behaviour and work towards their sole benefit.

## 14.6 Supply Chain Management Principles

The Institute for Supply Management describes supply chain management as "the design and management of seamless, value added processes across organizational boundaries to meet the real needs of the end customer. The development and integration of people and technological resources are critical to successful supply chain integration."

A conventional supply chain is shown in Figure 14.2 It is a chain of firms who are involved in providing a product or service, each firm performing it own functions that begins activities with a customer order and ends when a satisfied customer has paid for his or her purchase. Generally more than one player is involved at each stage. A manufacturer may receive materials from several suppliers and then supply several distributors. Thus, most supply chains are actually networks.

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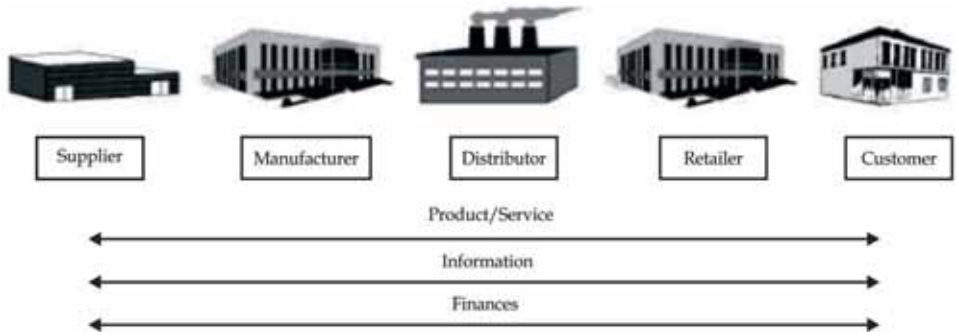
**Figure 14.3: The Supply Chain**




Though many stages are shown in the figure 14.2, each stage need not be present in a supply chain. The number of stages included should meet the primary purpose for the existence of the supply chain, i.e. is to satisfy customer needs. It is in the process that the organization generates profits for itself.

There are seven main principles of supply chain management as shown in table 14.1.

**Table 14.1: SCM Principles**

| The Seven Principles of SCM | |
|---|---|
| Principle 1 | Segment customers based on the service needs of distinct groups and adapt the supply chain to serve these segment profitably. |
| Principle 2 | Customize the logistics network to the service requirements and profitability of customer segments. |
| Principle 3 | Listen to market signals ad sign demand planning accordingly across the supply chain, ensuring consistent forecasts and optimal resource allocation. |
| Principle 4 | Differentiate product closer to the customer ad speed conversion across the supply chain. |
| Principle 5 | Manage sources of supply strategically to reduce the total cost of owning materials and services. |
| Principle 6 | Develop a supply chain-wide technology strategy that supports multiple levels of decision making ad gives a dear view of the flow of products, service and information |
| Principle 7 | Adopt channel-spanning a performance measures to gauge collective success in reaching the end-user effectively and efficiently. |

***Source:*** careersinsupplychain.org

## 14.7 Barriers to Supply Chain Management Integration

Debate and discussion on the benefits of supply chain management, there are significant barriers to supply chain integration by smaller subcontractors and suppliers. Largely, there remains a general mistrust within the SME companies that make up the construction supply chain and a general lack of belief that there are mutual benefits in supply chain integration practices. The researchers suggested that leading clients should take responsibility for engendering the necessary attitudinal change throughout the supplier networks if further performance is to be realized within the sector.

It is noted that Dainly et al. (2001) did not describe the methodology explicitly, except to state that there were semi-structured interviews and focus group interviews with suppliers to main

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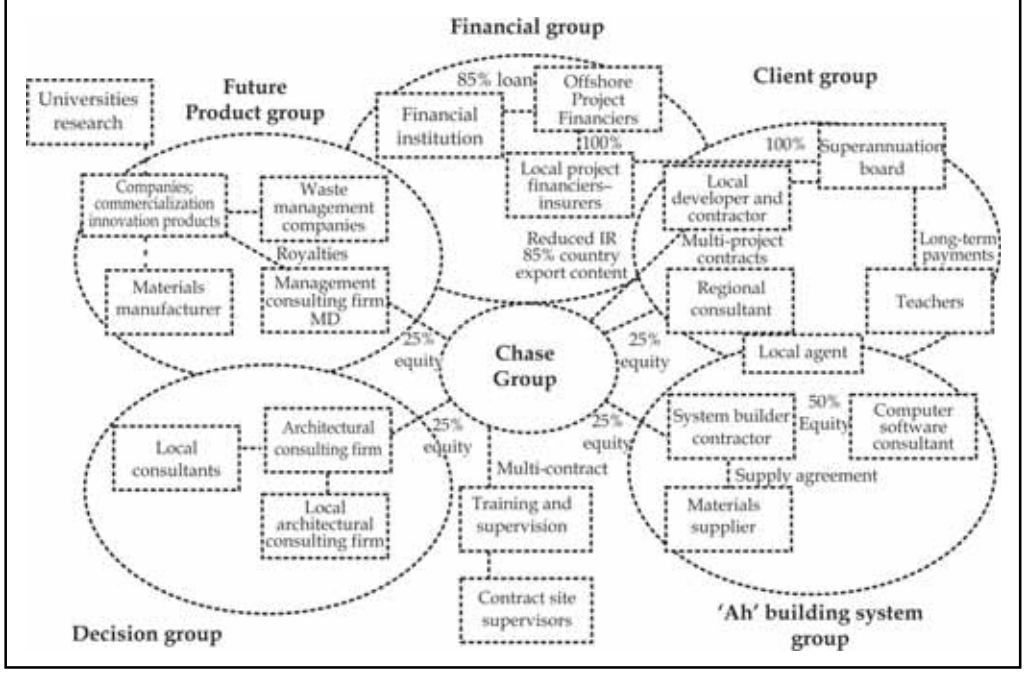
contractors. The main contractors provided the introduction to subcontractors working on their projects. The questions in the interviews were not described, nor were any sampling details, except with regard to the method for approaching the subcontractors.

Much of the strategic procurement research is related to governance of contractual relationships. Which explored the application of transaction cost economics to construction project and supply chains. Transaction cost economics is an economic theory derived to develop the theory of the firm and is concerned with how the boundary of the firm is governed by the attempt to reduce the cost of transacting with other firms. It is discussed now as it was presented by which as a conceptual framework for understanding the governance of construction project processes.

**Figure 14.4**




Construction of supply chain are largely viewed from the perspective of the individual firm, situation or project perspective – perhaps my small case study on the constellation of firms was beginning to move away from this narrower perspective. However, this is quite a limited case study. There is still, however, a dearth of empirical research to address the supply chain across the breadth of the industry towards understanding, describing and analyzing the structure and behaviour of supply chains.

The types of relationships between firms is central to strategic procurement; however, the type of relationships cannot be fully comprehended without an understanding of the markets. Many authors in strategic procurement have moved the debate regarding supply chains with respect to the need for the development of appropriate relationships; the problems of unreliable supply the different degrees of control between firms and the difficulties due to the temporary nature of a project-based industry. However, these are all characteristics of the real world construction industry.

### 14.7.1 Barriers of supply chain in SME

As SMEs strive to integrate their own supply chains, they must be aware of several barriers that can impede the integration process. First, and foremost, they must overcome the tendency of participants to work for their own advantage with little regard for the effects on other participants

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or the supply chain as a whole. Optimization of one part of the supply chain frequently results in suboptimization of the entire system. Greater benefits can usually be attained for all participants by optimizing the system as a whole. Other integration challenges can include:

- Lack of clearly defined, mutually acceptable goals
- Cultural incompatibilities
- Poor communications
- Lack of clearly identified mutual benefits
- Lack of in-depth commitment to and nurturing of relationships
- Lack of metrics or inappropriate metrics of evaluating performance
- Incompatibility of capabilities in communications and/or electronic design technologies.
- Lack of breakdown in mutual trust and respect
- Clashing corporate cultures.
- Legal barriers, including intellectual property, liability, and anti-trust issues.
- Government procurement policies and regulations.

Forces beyond the control of supply chain partners can sometimes undermine the best efforts at integration. The ability to foresee these challenges, understand the capabilities and limitations of supply chain participants, and formulate effective responses are critical skills for supply chain managers. With these skills and an understanding of the dynamics and interrelationships of the supply chain, timely, effective responses to disruptions and imbalances can be implemented.

Supply chain effectiveness can always be improved. The challenge is to prioritize opportunities correctly, allocate scarce resources, and devote the time and expertise necessary to harvest these opportunities. SMEs that understand supply chain integration and carefully pursue the right opportunities can achieve a substantial competitive advantage.

Organizations do not implement internal logistics integration in a vacuum. It is important to recognize obstacles, or barriers, that often serve to inhibit internal process integration. Integration barriers originate in traditional practices related to organization structure; measurement systems, inventory ownership, information technology, and knowledge transfer capability. Each potential barrier is discussed below:

### Organization Structure

The traditional organization structure for conducting business prevents any cross-functional process from being implemented. Most traditional organizations are structured to divide authority and responsibility according to functional work. In essence, both structure and budget closely follow the work to be performed. The traditional practice is to assemble all persons related to performing specific work into a functional department such as inventory control, warehousing operations, or transportation. Each of these organizations becomes concerned with achieving its own functional excellence. Since the goal of integration is cooperation among functional areas, the formal organizational structure can hinder success. Popular terms to describe traditional functions are the sandbox or silo mentality. In part, this managerial preoccupation with function is caused by the fact that most managers are rewarded for achieving functional excellence. The general belief that prevailed was that functions, excellently executed, would

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combine to create overall superior performance. Successful integration of a process such as logistics requires managers to look beyond their organizational structure and facilitate cross functional coordination. This mayor may not be best accomplished by creating a new organization structure. However, regardless of whether the organization structure is realigned, significant modification of how an organization deals with cross-functional matters is essential for successful process integration.

### Measurement System

Traditional measurement systems have also made cross-functional coordination difficult. Most measurement systems mirror organization structure. To successfully facilitate integration of logistics functions, a new scorecard must be developed. Managers must be encouraged to view their specific functions as part of a process rather than as stand-alone activities. Managers may, at times, have to assume increased costs within their functional area for the sake of lower costs throughout the process. Unless a measurement system is created that does not penalize managers, logistical integration will be more theory than practice.

### Inventory Ownership

It is a fact that inventory can help a specific function achieve its mission. The traditional approach to inventory ownership is to maintain adequate supply to gain comfort and protect against demand and operational uncertainty. The availability of inventory, for example, can support long manufacturer runs resulting in maximum economy of scale. Forward commitment of inventory to local markets can also serve to facilitate sales. While such practices create benefits, they have a related cost. The critical issue is the cost-benefit relationship and the risks related to incorrectly located or obsolete inventory.

### Information Technology

Information technology is the key resource to achieve integration. However, similar to performance measurement, information system applications tend to be designed along organization lines. Many databases are limited to specific functions and are not easily accessed on a cross-functional basis. The need to share information has resulted in the development of data warehouses that exist for the sole purpose of sharing information between systems. Until schemes are developed to transfer information, the existing applications can serve as a barrier to process integration because critical data cannot be readily shared.

### Knowledge Transfer Capability

Knowledge is power in most business situations. An additional barrier to integration is limitation in the ability to share experience. Failure to transfer information or knowledge containment tends to foster the functional orientation by developing a workforce composed of specialists. The failure to transfer knowledge can also create a barrier to continued integration when an experienced employee retires or for some other reason leaves the firm. In many cases, replacement personnel are not available to “learn” from the experienced worker. The more serious situation is a failure of many firms to develop procedures and systems for transferring cross functional knowledge. Process work often involves many employees and is not limited to any specific functional area. Transfer of this type of knowledge and experience is difficult to standardize.

### 14.7.2 Barriers, Benefits and Bridges to Supply Chain Management

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***Barriers of supply chain management***

The barriers of supply chain management are:

- Inadequate information sharing
- Poor/conflicting measurement
- Inconsistent operating goals
- Organizational culture and structure
- Resistance to change—lack of trust
- Poor alliance management practice
- Lack of SC vision/understanding
- Lack of managerial commitment
- Constrained resources
- No employee passion/empowerment

***Benefits of Supply Chain Management:***

The benefits of supply chain management are:

- Increased customer responsiveness
- More consistent on-time delivery
- Shorter order fulfilment lead times
- Reduced inventory costs
- Better asset utilization
- Lower cost of purchased items
- Higher product quality
- Ability to handle unexpected events
- Faster product innovation
- Preferred and tailored relationships

***Bridges of Supply Chain Management:***

The bridges of supply chain management are:

- Senior and functional managerial support
- Open and honest information sharing
- Accurate and comprehensive measures
- Trust-based, synergistic alliances
- Supply chain alignment and relationalization

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- Cross-experienced managers
- Process documentation and ownership
- Supply chain education and training
- Use of supply chain advisory councils
- Effective use of pilot projects

## 14.8 Retail Logistics

Before we address the theme of logistics, it is important to understand what logistics is. Logistics, from the point of view of a layman, is the technique of managing and controlling the flow of goods, energy, information and other resources like products, services, and people, from the source of production to the marketplace. This concept is applicable to moving and storing a physical product in a manufacturing setting as well as in areas as service industries, the armed forces and even environment management.

One dictionary definition of logistics is: "The time related positioning of resources." However, a formal definition of logistics management can be 'Design and operation of the physical, managerial, and informational systems needed to allow goods to overcome time and space.'

Logistics is also used for environmental services. Whether it is recycling, packaging materials, transporting hazardous materials or refurbishing products for resale, logisticians are involved in a major way. For example, on an average Delhi generates 4000 tonnes of municipal solid waste per day or one and a half million tonnes of waste each year. Delhi also generates 69,402 kilolitres/ year of hazardous waste each year. This is a huge logistics exercise. The waste must be collected and delivered to the garbage disposal system regularly and on time. If the waste is not removed in time, the city would stink. In this case the logistical system has to face the additional complications that arise from governmental operations and regulations, making logistics a greater challenge.

In many ways, the techniques, concepts, and methods discussed throughout this text are applicable to all these activities. For example, problems in the armed forces need to be solved by enhancing the responsiveness of logistics operations to provide it with the enabling capability such that the missions are successfully completed. Service sector problems need to be solved in identifying the costs associated with the distribution of an intangible product. The solutions to business logistics problems reflect a balance between responsiveness and cost.

As these definitions and descriptions imply, there are many activities and functions associated with logistics, therefore, an integrated view of a number of different activities or functions; such as information, transportation, inventory, warehousing, material handling, and packaging; are required to understand the true nature of logistics.

The different elements and how they are integrated together is what the rest of this book will try to discuss. Understanding these is very important because logistics managers have to combine a general knowledge of each of these functions so that there is a coordination of resources in an organization.

In the highly competitive retail marketplace, typified by changing consumer preferences, different formats as well as large geographical stores spread, the onus on retail logistics to ensure efficiency and cost margins is quite substantial. Hence, it would not be inappropriate to state that oftentimes, the viability of a retail operation hinges as much on achieving efficient logistics and supply chain as it does on attaining success in the front end.

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### 14.8.1 Objectives

- To ensure perfect coordination among various entities involved in the supply chain such as suppliers, manufacturers and vendors.
- To ensure that consumers get the right product at the right time and at the right place.
- To ensure that supply to retail stores across various geographies is seamless and consistent.
- To be flexible in order to allow for changes in the product mix owing to changes in consumer demand.
- To constantly improve operating margins.
- To achieve profitable and sustainable growth of retail operations in the long run.
- To achieve optimal inventory levels and reduce wastage of products.

### 14.8.2 Components

Traditionally, retail logistics had two major components – transportation and storage. But with the increasing complexity of modern retail supply chains, the scope of logistics has also expanded beyond the traditional definition. An efficient retail logistics function has become a significant instrument for retailers to ensure competitive advantage, and its scope now includes plans and processes that allow the back end to effectively meet consumer demand. Currently, retail logistics is a holistic concept that involves coordinating the following main processes among others:

- Inbound and outbound transportation
- Warehousing
- Packaging and labelling
- Shipment consolidation
- Tracking/Tracing the products
- Inventory management
- Quality checking
- Planning for cost control
- On Point Retail, Distribution and Warehousing
- Distribution of merchandise
- Reverse handling and flow of products (reverse logistics)

The main processes and activities of retail logistics listed above are aimed at making sure that the shelves in a retail front-end store are never vacant and are filled with the right products at the right time and at the right place. Apart from maintaining an efficient supply chain, which keeps the stores filled with the correct products, it is also important that retail logistics increases operational efficiencies to allow retailers to run a viable retail operation.

### 14.8.3 Delivery Models

For decades, retail logistics has evolved through various models. Years ago, retailers and manufacturers had to rely on a traditional distribution channel composed of transporters, clearing and forwarding agents and stockists. Since mid-1990s, the emergence of alternative modern

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distribution channels has allowed retailers to choose from a range of logistics service providers to achieve an efficient storage and flow of products.

As of now, there are four logistics delivery models that retailers can choose from:

- Entirely self-managed logistics and warehousing network
- Partly outsourced to traditional service providers like transporters, clearing and forwarding agents and stockists
- Partly or completely outsourced to third-party logistics service providers (otherwise known as PL players)
- Completely outsourced to fourth-party logistics providers (otherwise known as 4PL players)

Whilst the above four are broad delivery models available to manufacturers, retail chains and retailers, it has been observed through interactions with retailers and warehouse users during this study that oftentimes, hybrid models of distribution are preferred. For example, a retail chain may choose to manage the transportation of its goods while the warehousing may be outsourced to a PL provider. The first two models listed above are more or less self explanatory, while the following definitions further explain the 3PL and 4PL delivery models:

***3PL*** – A third-party logistics provider (3PL) is an entity that provides services to companies for some or all of their supply chain management functions. PL providers typically specialise in integrated warehousing and transportation services that can be scaled and customised to the client's needs based on market conditions and the demands and delivery service requirements for their products and materials. In India, a large number of professional 3PL players like DRS, Gati, DHL, OM Logistics, Indo Arya, Sical Logistics, Reliance Logistics, SafeExpress, Agility, M J Logistics, AS Cargo, Kuehne+Nagel, Panalpina, Expeditors and AFL among others have been providing services to retailers and other sectors for their logistics requirements.

***4PL*** – As retailing in India is expanding and reaching new heights in terms of both geographical coverage and volume of products, there is an emerging requirement for an integrating logistics firm to assemble various resources, capabilities and technologies of its own as well as other companies to provide a complete logistics package to clients. Such firms are typically known as 4PL players. Typically, the resources used by a 4PL player are of other service providers, and its fundamental role is to manage all the PL players and other independent agencies employed for a logistics function, providing a turnkey logistics solution to retail chains and to other sectors.

Whilst this model is quite prevalent in developed countries, the 4PL sector in India is at a nascent stage, with a few players emerging such as Future Logistics (which is a 4PL for Future Group). In order to better comprehend and appreciate the respective range of services under each of the outsourced delivery models, the table below is a compilation of the typical spread of services delivered under each respective model. It is pertinent to note that the table below is an indicative compilation based on the feedback received from meetings with logistics service providers and not a comprehensive listing of all possible logistics services.

The organised PL sector in India has been consistently growing over the last few years, mirroring the growth witnessed in the retail logistics sector overall. The sector comprises of global as well as Indian companies that are ramping up their operations on a Pan-India level to cater to retail as well as other sectors. According to a Technopak study, the total outsourced logistics revenue in 00 was INR 1,151 billion, of which 5% or INR 58 billion was attributed to revenue gained from the PL sector. Revenue generated from retail 3PL was estimated at INR billion. The retail PL revenue has been predicted to continue to grow at a CAGR of around 1 % for the next few years.

The entry of large 3PL players has led to significant improvement and organisation within the retail logistics and modern distribution warehousing sector in the country. Over the years, the

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range of services of PL players has expanded to cover the service lines. In some cases, it has been observed that PL players have even gone beyond their main service offerings to provide logistics network planning to clients as well.

*Task* "Globalization thrives in a world where the cost and ease of global transport and communications are ever improving." Discuss in context of the supply chain.

The proliferation of outsourcing in logistics and the ability of 3PL and 4Pl operators to lower logistics cost is the issue. How do these operators work which allows them to cut cost more than the manufacturer himself? Students should be able to identify the main sources of competitive advantage. In particular, the student may discuss the extent to which changes are taking place in the environment and how the supply chain copes with them.

## Self Assessment

Fill in the blanks:

10. ..... means the time related positioning of resources.
11. Traditionally, retail logistics had two major components- transportation and ..... .
12. ..... logistics providers are also referred to as 3PL players.
13. ..... is a 4PL for Kishore Biyani owned Future Group.
14. ..... systems coordinate the movement of products and services from suppliers to customers.
15. Supply chain management is a major application area for ..... .
16. Supply chains arise in both ..... and service organizations.

*Case Study*

### Case: Leading Insurance Company Expansion Results in $2 Million Savings

***Challenge***

A leading health and Life Insurance Company outgrew their corporate headquarters because of personnel increases necessary to keep pace with an expanding customer base and increasing numbers of services offered. Due diligence determined that it was strategically and economically beneficial to remain in the same location rather than seeking a new space. They needed a way to expand their facilities but lacked the internal resources to carry out the critical initiatives necessary to do so.

***How We Helped***

Acting as interim sourcing manager, Resources helped with sourcing strategies, requests for proposals, price negotiations and supplier conferences necessary for the construction of 20 additional stories on existing corporate headquarters.

*Contd...*

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***Results***

Client estimates our sourcing efforts resulted in an estimated $2 million in savings in construction costs plus increased comfort, efficiency, capital value from the build out.

***Why Resources Global?***

Client understands and appreciates our value proposition. Our work spans multiple practices areas, and our relationship continues to grow. This client currently engages 15 Resources professionals to support ongoing process improvement initiatives. For the past three years we have been their sole provider of outside professional services.

Efficient Sourcing of Operating Supplies Saves Major Energy Company More Than 10%

***Challenge***

A Midwestern energy company converts wind, coal and natural gas into 6,000 megawatts of electricity for 755,000 customers. Management believed that more efficient sourcing of operating supplies could make a significant contribution to efficiency and profitability. They evaluated a number of professional services firms and chose Resources to help assess their supply chain and determine whether improvements could lead to significant savings and efficiencies.

***How We Helped***

After assessing their supply chain function, Resources provided direction, leadership and expertise to elevate their sourcing to best in class. Specifically we:

- Helped form an SCM steering committee
- Performed a complete inventory reconciliation
- Implemented strategic sourcing
- Developed an alliance management program with key suppliers
- Designed and implemented a Foreman/Admin portal to simplify SAP usage of repetitive tasks

***Results***

Collaborative strategic sourcing led to a savings in excess of 10% of operating supplies spend.

***Why Resources Global?***

Resources had experienced and accomplished professionals, including a supply chain CSD team who understood their issues. Other companies offered guidance but not solutions.

***Source:*** http://www.resourcesglobal.com/index.php/client-services/supply-chain-management/case-studies-supply-chain-management

## 14.9 Summary

- The supply chain is based on two core concepts: Firstly, practically every product that reaches an end user represents the cumulative effort of multiple organizations. These organizations are referred to collectively as the supply chain; secondly, organizations have to manage the entire chain of activities that ultimately delivers products to the final customer in order that each stage of the supply chain and all its constituents can maximize profits.

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- Supply Chain Management (SCM) maximizes profit by integrating three key flows across the boundaries of the companies that form the supply chain: flow of value (product/ materials), information, and funds. Successful integration or coordination of these three flows produces improved efficiency and effectiveness for business organizations.
- Logistics as a concept is considered to evolve from the military's need to acquire supplies as they moved from their base to a forward position.
- "Logistics is the process of planning, implementing and controlling the efficient and effective flow and storage of goods, services and related information from the point of origin to the point of consumption for the purpose of conforming to customer requirements."

## 14.10 Keywords

***Collaborative Relationships:*** Organizations perform a series of value-adding activities working together by recognizing the interdependency and need of cooperation, to provide benefits to both parties.

***Logistics:*** Design and operation of the physical, managerial, and informational systems needed to allow goods to overcome time and space.

***Purchasing:*** The acquisition of goods and services needed to support the various activities of an organization.

***Supply Alliances:*** These relationships are based when there is institutional trust between the buyer and the seller with a high level of recognized interdependence and commitment in the relationship.

***Supply Chain Management:*** Managing supply and demand, sourcing raw materials and parts, manufacturing and assembly, warehousing and inventory tracking, order entry and order management, distribution across all channels, and delivery to the customer.

***Transactional Relationships:*** This is a supplier-buyer relationship where neither party is especially concerned with the well-being of the other.

## 14.11 Review Questions

1. Examine the purpose and role of negotiation in purchasing.
2. What do you understand by collaboration strategy? Which relationship is better, an alliance or collaboration? Explain the reasons for your answer.
3. Explain the conceptual model for retailer-vendor relationship.
4. What do you mean by supply chain management? State the principles of supply chain management.
5. Give a detailed account of retail logistics.
6. What are the various components of supply chain management?
7. Describe the features of supply chain management.
8. Explain the role of supply chain in the context of retail organization.
9. Describe the barriers of supply chain management integration.
10. How will you improve retail effectiveness through technology?

Notes

11. How do you fix the credit limits of the customers (Distributors, Dealers)?
12. What are the risks in procurement how do you minimise these risks?
13. Explain as an expert of SCM study, how will you overcome various barriers ?
14. How do you analyse Inventory Shrinkages?

### Answers: Self Assessment

| | | | |
|---|---|---|---|
| 1. | True | 2. | False |
| 3. | True | 4. | False |
| 5. | True | 6. | False |
| 7. | True | 8. | True |
| 9. | False | 10. | Logistics |
| 11. | Storage | 12. | Third party |
| 13. | Future logistics | 14. | Supply Chain Management |
| 15. | Internet Technologies and Electronic Commerce | 16. | manufacturing |

## 14.12 Further Readings


*Books*

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*Online links*

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