Vardhaman Mahaveer Open University, Kota

Retail Management

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CONTENTS

Retail Management

Unit – 1 Retailing

Structure of Unit

1.0   Objectives

After completing this unit, you would be able to :
- Understand meaning of Retailing.
- Know the functions of Retailers.
- Learn importance of Retailing.
- Pointout services of Retailers towards manufacturer, wholesaler and consumer.
- Know about pre-requisites for a successful retail trade.
- Understand the inter dependence of manufacturer, wholesaler and retailer.

1.1   Introduction

A major purpose of distribution is delivery. It is only through distribution that public and private goods and services can be made available for use of consumption. Producers of such goods and services are individually capable of generating only the form or structural utility for their products and services. They can organize their production capabilities in such a way that the products they have developed can in fact, be seen, analysed and sold in the market. The emergence and arrangement of the wide variety of distribution-oriented institutions and agencies, typically called intermediaries because they stand between production on the one hand and consumption on the other. A retailer is the last middleman in the machinery of distribution. Retail trade is selling of varied goods in small quantities to the final consumer. There are three distinguishing features of retail trade. The retailer deals in small quantities than wholesaler and his business is usually local in character. Secondary, retail trade always shows tendency towards variety as it has to satisfy innumerable wants of consumers. A specialized retail shop is for approaching specific target market. Thirdly, a retailer, by operating near about the residential areas of consumer,

sells his wares directly to consumers. Manufactured goods are worthless until they pass acid-test of retail distribution. The retailer alone can offer safe and reliable goods to consumers.

1.2 Meaning

Retailing is a trading activity directly related to the sale of goods or services to the ultimate consumer for personal, non-business use. Retailing is now-a-days not limited to the small kirana stores centric to the group of population living in that area. The dimensions of the word 'retail' has changed completely, many new stores catering to the moods, buying behavior and requirements of their clients have emerged. Gone are the days when one family member goes out for buying their groceries and necessities, now it has become the centers of recreation, hang outs and family get together.

Research have proved that the success of retailing is dependent on customer satisfaction and customer service. Although both are used interchangeably however the basic difference between them is - customer satisfaction is how the customer perceives the performance of the store externally on the other hand customer service means how well the store has met the established performance standards that are viewed as important in meeting the customer needs. As we talk of the mind set of customer, it is the past experience what he tests with the retailer. Had there been five positive experiences, but if sixth experience is a negative, then it will sublime all the good ones that came before, hence the customer service is an important element of retailing. Retailing can be defined as:

American Association of Marketing : "Retailing embraces the direct to customer sales activities of the producer, whether through his own stores, or by house-to-house canvassing or by mail order business."

Report of the Definition Committee U.S.A. : "Retailing includes all activities incidental to selling to the ultimate consumer."

Philip Kotler : "Retailing includes all the activities involved in selling goods or services directly to final consumers for their personal, non business use. A retailer or retail store is any business enterprise whose sales volume comes primarily from retailing.

According to **Clark and Clark**, "Retailing includes all forms of selling to ultimate consumers".

According to **Cundiff and Still**, "Retailing consists of those activities involved in selling directly to ultimate consumers."

Retailer can be defined as:

W.J. Stanton, "A retailer or retail store is a business enterprise which sales primarily to ultimate consumers for non-business use."

In words of **P.D. Converse and Huegy**, "The retailer may be defined as a middleman who sells mainly to the ultimate consumers is a specialist who maintains contact between consumers and producers."

According to **Stephenson**, "Retailer is one whose business consists in the sale to consumers of variety of goods which are assembled at the retailer's premises for that purpose in sufficient quantity and of wide variety, so that all the requirements of a large number of individuals and household consumers can be smoothly and efficiently met."

So, retailer refers to a person who does retailing and sells goods to ultimate consumers. Ultimate consumers mean those purchases who buy services or goods for their consumption, not for selling it any further.

Retail Life Cycle

The concept of Product Life Cycle (PLC) in core marketing includes four stages – Introduction, Growth, Maturity and Decline. Similarly, Retail Life Cycle which is related to the process of growth to decline with respect to retail outlets is also divided into four distinct stages:

- Innovation or early Growth
- Accelerated Development
- Maturity
- Decline

1) Innovation or Early Growth

Innovation or Early growth is the initial stage of any retail business or system. Examples of early growth retailers are :

- Value–retail Centers
- Online Retailers
- Single–brand Stores

2) Accelerated Development Stage

Accelerated development stage in the retail life cycle is the next stage of innovation stage. Examples of accelerated development retailers are :

- Single Price Stores
- Factory Outlet Stores
- Warehouse Clubs

3) Maturity Stage

Under this stage the retail outlet enjoys a reputed position in the market and they choose their own way of retailing according to the market scenario. Examples of Retail Units in this stage are :

- Food-based Superstore
- Convenience Stores
- Supermarkets
- Departmental Stores

4) Decline Stage

In this stage demand at the outlet or store falls, probably due to opening of new and functionally advanced stores with more facilities, by the competitors. Examples of such retailing units are:

- Catalogue Retailer
- Business-distinct retailers
- General Store

1.3 Nature of Retailing

1. A retailer is the link between the wholesaler and the customer. It binds both the parties and acts as a bridge between them.

2. They sell goods in small quantities to the consumers after purchasing in bulk for wholesalers.

3. They deal in different variety of products.

4. They can start business with lesser capital.

5. A retailer is the last component in the chain of distribution that begins with the producer. They usually purchase goods on credit from the wholesaler and sell on cash basis to the consumers.

7. Providing maximum service to the consumers and their utmost satisfaction is the sole objective of retail trade.

8. They operate both on small and large scale basis.

9. While most retailing occurs through retail stores, it may be done by any institution.

10. Any firm – manufacturer, wholesaler, or retailer – that sells something to ultimate consumers for their non-business consumption is making a retail sale.

11. It does not matter how the product is sold (by person, mail, telephone, or vending machine) or where it is sold (in a store, on the street, or at the consumer's home)

12. Most people associate the term retailer with the sale of goods rather than services.

13. Any institution (such as a manufacturer) may engage in retailing, but a firm engaged primarily in retailing is called a retailer.

14. Retailer's profits are usually a very small fraction of sales.

15. Most retail firms are small either single stores or several stores under common ownership.

16. Small retailers can survive – and even proper – if they remain flexible and pay careful attention to personally serving customer's needs.

17. Besides product, price, promotion and customer services, retailers also must make strategic decision regarding, physical facilities. Specific decisions concern location, design and layout of the store.

18. In retailing, the customer generally initiates the transaction. This differs from marketing on the producer, wholesaler level, where a sale person will actively pursue customers.

19. Retailing has a sense of urgency. People want to buy and use many retail goods immediately.

1.4   Elements for Success of Retailing

Herbert A. Kason believes, "The success of retailer depends on his skill in sale-purchase". Therefore a retailer should have knowledge of the sources of supply of goods. He should know of the commodities sold by wholesalers, its variety and price so that he can purchase goods keeping in mind the quality of good, quantity and price according to demand of the customer.

In short retailer success depends on following elements :

1. **Sufficient Capital :** Small scale retailing can be started with the little capital but for large scale retailing a huge amount of capital is to be arranged. Little capital is a great hinderance to the growth of trade. The supremacy of capital is also harmful for trade and it decreases the real percentage of profit. So sufficient capital is a must for the success for trade.

2. **Proper Place of Business :** As retailers sale goods directly to the consumers therefore the selection of place for business is of prime importance to him. His shop should be in an approachable place where public can reach easily with out any difficulty therefore, retailer should open his shop in the heart of the city.

3. **Commerce Education :** For the success of retailing trader should have good knowledge of commerce, its reason being :

(i) Knowledge of Commerce and Economy helps him to open the market and finding the place of supply.

(ii) Knowledge of economics helps him in assessment of his demand.

    Similarly a retailer should also have knowledge of preparing financial accounts. In modern times he should have the qualities of an expert seller.

4. **Internal and External Display of Shop :** A retailer should pay attention to the decoration of his shop. The public walking on the roads should be attracted to see the external decoration and ones he enters the shop he should be convinced by the internal display of the things and tempted to buy something or the other.

5. **Less Profit and More Sale :** Retailer should always adopt a policy of less profit and more sale, if the profit will be less, sale will increase, as a result profit will also increase. It will help in enhancing his commercial reputation and he will also win the confidence of customers and his business will flourish.

6. **Selection of Proper Products:** Success of retailers depend on proper selection of merchandise. Proper merchandise means goods primarily in demand. This selection is made on the basis of his previous experience, present circumstances and farsightedness.

7. **Selection of Right Trade :** Retailers should do selection of right trade on the basis of availabilities of capital, ability and interest but while doing so he should be smart enough to know what future the business has got.

8. **Appointment of Efficient Salesman :** When the scope of work of a retailer expands, then he has to appoint salesman. In this condition efficient salesmen are appointed. An efficient salesman gives complete satisfaction to the customers and sells them according to their level and necessity. As a result the trade flourishes day and night.

9. **Credit Facilities :** A retailer in order to succeed should provide credit facilities to its customers. Various customers who not have cash-in-hand take things on credit. If they do not get credit facility they may stop purchasing from that particular shop.

10. **Personal Attributes :** Retailers should have some personal attributes so that customers get influenced and visit their shop in large number. Various qualities like honesty, good behaviour, dynamic personality, hard work, and feeling of service are some of the qualities which impress the customers.

11. **Salesmanship :** The success of retailers to a large extent depends upon the trader's skill in salesmanship. An expert salesman will tries to win the trust of its customer and never allow a person who steps into his shop to go empty handed So salesmanship is very important in retailing, without which all the other factors leading to success becomes ineffective.

12. **Honesty :** Retailer should do his work with honesty to be in trade business for long term. He should not do adulteration with goods accept right price, nor do any kind of cheating with the customer etc. he should always follow, "Honesty is the best policy".

13. **Fixed Price :** Those traders who bargain with their customers regarding the prices and then agree on less price soon lose the confidence of the customers. On the other hand those who charge one fixed price are more successful.

14. **Advertisement and Sales Promotion :** This is very important for the success of retailers. The sale of a commodity increases with effective modern techniques like : exhibitions, free samples, bonuses and customer assistance etc. As the competition among the retailers is more therefore it is necessary for their success.

15. **Guarantee and After Sales Service :** Retailers who deal with specific kinds of items should take guarantee of the goods for certain time period and should offer services like repairing damaged product even after sales. This gives satisfaction and helps to build relation with the customer, even if he has to pay extra charges for such services.

16. **Facility Services :** Retailers have a long list of permanent customers. Often sellers provide the facility of home delivery to few customers. At the same time they also get the things approved by the customers.

17. **Research :** The success of retailer depends on work according to the nature of the market. Therefore he should carry out research work time and again

regarding the interest of customer necessity, their social level, and purchase habits.

18. **Effective Sales Policy :** The assessment of the success of retailer depends on the quantity of sale done by him. If a trader adopts effective sales policy then he will be able to do sale also in large quantity, e.g. sale on less profit, facility of credit, not to accept the rejected or damaged item back are the examples of effective sales policy, which attracts the customers.

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1.5 Functions of Retailer

A retailer performs the following distinct functions :

1. **Assembling :** A retailer deals in different variety of goods which he purchases from different wholesalers for selling to the consumers. He tries to locate best and economical source of the supply of goods.

2. **Sorting :** Retailer participates in the sorting process by collecting an assortment of goods and services from a wide variety of suppliers and offering them for sale.

3. **Standardising :** Retailer performs the job of standardization, grading and final processing of goods which have been left ungraded by wholesalers.

4. **Storing :** Retailer preserves goods in stores and provide these goods for sale to the customers as and when required by them. The goods are the kept in reserve stocks in order to ensure uninterrupted supply to the consumers.

5. **Transport :** Big retailers have their own transport facilities for physical movement and storage of goods.

6. **Selling :** The end objective of the retailer is to sell the goods to consumers. He undertake various methods to sell goods to the ultimate consumers.

7. **Credit Facilities :** He caters to the needs of the customers even by supplying them goods on credit. He bears the risk of bad debts on account of non-payment for purchasers by the customers.

8. **Risk Bearing :** A retailer has to bear different type of risks. These include the risks of deterioration in quality, spoilage, perishability, change in fashion, styles and consumers' tastes, etc.

9. **Packing :** He packs the goods in small packages and containers for the convenience of the customers.

10. **Marking Prices :** Retailers mark the prices on the product after considering the various factors. They make provision for allowing a discount in prices.

11. **Market Information :** The retailers are in direct touch with the consumers. They gather invaluable informations with regard to likes, dislikes, tastes and demands of the consumers and pass on this information to the wholesalers and the producers which is very helpful to them.

12. **Window Display and Advertising :** Retailers place the products on the sales floor to increase the visibility of merchandise to the customer. The retailer display the products in show windows in order to attract the customers. This leads to the promotion of the product.

13. **Paying Suppliers :** Generally, retailers pay suppliers for items before selling them to final consumers.

14. **Sales Presentations :** Retailers keep good salesman to persuade customers to buy goods, to solve their buying problems, to provide them the kind and quality of product or service. Salesman discover their needs and wants thereby increasing their total satisfactions.

15. **Introducing New Products :** Without the services of retailers, new products cannot be introduced properly in the market. This is so because a retailer has a direct link with the consumer. He can explain nicely about the utility and the characteristics of a new product to the customer.

16. **Providing After-Sale-Services :** To provide maximum buying satisfaction, a retailer gives various services to customers, which include the changes of faulty goods, repairing, installation of product, returning money, maintaining relations, etc.

17. **Concluding Transactions :** Retailers complete transactions by using appropriate store locations and hours, credit policies and other services.

Retailing includes all the activities directly related to the sales of the goods and/or services to customers for personal, non-business use. Retail sector provides employment to crores of people in India – one of every six employed in retail industry.

A retailer sells not merely the goods but also offers services to the customers. He wants to establish permanent and continuous relationship with the customers. For this he gives reliable advice and guidance to customers. In the light of his specialized information and expert advice consumers can make their purchases under favourable conditions. Retailers can pass on benefits of their specialization to their loyal customers. For instance, when the retailers anticipate shortages and rise in prices of certain goods, they would advice their key customers to make their purchase immediately in advance so that they may not feel any inconvenience later on when rise in prices takes place.

With respect to producers and wholesalers, retailers act as the last outlet for distribution of goods within the country. A retailer is the connecting link between the wholesaler and the consumer. Individual sales in small quantities is the responsibility of the retailer. In the absence of retailers it would be impossible to distribute goods to ultimate consumers and most of our needs and wants will remain unmet. In short the entire trade will be paralysed.

A retailer aims at giving maximum local convenience to consumers. In every residential locality we have a full set of retailers to satisfy our daily wants. Consumers need not store the commodity beyond their normal requirements. Any article in any quantity is always available on demand at the retailer's shop.

A retailer usually maintains wide variety of stocks. He may have all popular brands of one article. Thus, consumers are provided variety of choice and hence selection becomes easier for them. Through personal salesmanship, window display and demonstration, a retailer attracts customer attention to new goods and supplies information to them about the arrival of new goods. A new demand can be created for novelties.

Retailers are absolutely essential in meeting daily demands of consumers for fresh foodstuffs, vegetables fruits, milk, numerous daily wants. Personal services offered by retailers to their regular customers assure individual satisfaction. Retailers help customers in making wise selection of goods. Specialized retailers offer durable and costly consumer goods on installment sale basis. Even ordinary retailers give credit to their regular customers. Retailers have personal contacts with the consumers and users of products. They can easily provide feedback information to wholesalers and manufactures on the latest changes in consumer wants and preferences.

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1.6   Prerequisites of Retail Trade

The success of retail store centers round a proper combination of the following factors :

1. **Strategic Planning :** Retailer must also have the planning of sound strategies. The selection of target market and development of marketing mix are important aspects of strategic planning. Product assortment, price strategies and promotional methods need special attention.

2. **Physical Facilities :** The ultimate success of retail store is governed by favourable location which alone can assure sustained sales. Exterior and interior appearance and good layout also play an important role in the success of retail store.

3. **Price :** Appropriate pricing strategy can have the greatest market appeal particularly in inflation. Low price with reasonable quality and due service can work wonders in retail trade. High price-high service demands skilled and highly motivated sales people. Lower price and limited service demands control over marketing expenses as gross margins are small.

4. **Promotion :** Unique advantages of promotional campaigns explain considerable success in retailing. Retailing is the toughest 3 feet (retail counter) in the channel of distribution. If these 3 feet are not crossed (with the help of sales promotion, e.g., point-of-sale/purchase display), all other sales efforts become useless. Active co-operation between manufacturer and retailer in promotion mix can guarantee flourishing sales, assuming that the product or service is intrinsically sound and price is quite reasonable. Right time and money can make promotion effective.

5. **Buying :** A retailer can acquire highly desirable product assortment, indicating good values to his customers, through shrewd buying practices and sound decision-making ability. He should act as expert buying agent

on behalf of his customer. Intelligent buying decisions give rich dividend in retail trade. Acid test of retail success is customer satisfaction, i.e., emphasis on the sale of merchandise so that satisfies needs and wants.

6. **Service :** Retailers give non-price competition essentially through personalized services. Prompt and courteous service, quality assurance, sale on approval, money-back guarantee, service after sale, free home delivery, grant of credit, securing goods to satisfy individual taste and liking, offer of expert advice to customer, and comfort and convenience in the store – all these are welcome by customers and their patronage goes to such retailers who aim at securing profit through service. The retailer must follow the policy illustrated by such quotations, e.g., "The customer is always right", "It pays to be customer" minded and the customer is king/queen". "He who serves best will profit most". These quotations emphasise the concept of service not profit as the primary objective of the seller in the marketplace. Most customers prefer warm and friendly ambience.

7. **Efficient Management :** Better planning, organization and control can offer efficient retail operations. Proper selection, training, remuneration and motivation of sales force will also assure higher efficiency. If a retailer plans his inventories in detail, buys and sells according to plan, at the end of the year he will have his predetermined profit.

The goal of a retail store should, by and large, be : (1) to serve the community, (2) to provide employment opportunities for people, and (3) to make reasonable profit. The success of a retailer depends much on his ability to serve a real need of the people. The retail store has an obligation to its employees. They have to be well motivated and kept contended. Profit is an important consideration in the management and operation of a store. High taxes, keen competition and increased cost of sales, all have an unfavourable effect on the profits of the retailers. Effective stock management, proper merchandise investment, control of unnecessary expenses and general expense control, personalized services to the customers, adoption of modern principles of business management, liberal use of electronic computers and new communication tools, are some of the progressive measures by means of which retailers can ensure reasonable profit margins.

$$\text{Sales} - \text{Operating Costs} = \text{Operating Profit}$$

Sales are influenced by management decisions on location, 4 'P's of marketing mix and inventory.

Operating costs are influenced by decisions on products and services, facilities, promotion, labour and inventories.

Computer technology enables management to take sound merchandising decisions on the basis of latest information – on supply, demand, costs, etc., quickly and economically.

1.7   Importance of Retailing

Retailing acts a significant link in the distribution channel between producer and end-users. It contributes to the economy of a nation by its functions. Its role and importance can be described below:

1. **Dynamic Field :** Retailing faces with changing situations. It is such a dynamic field that forecasting future developments is a very risky endeavour. Today, retailing management, in particular, has come to be recognized as "young person's" field. New retail forms are constantly emerging to threaten established retail forms.

2. **Basis of sales Campaign : John P. Steinbrink** says, "The success or failure of a sales campaign comes to focus on the local retail dealer. That's where the action is. That's where the customer buys the product."

3. **Diverse channel :** Retailing is perhaps the most diverse channel of distribution. It includes the independent dealer, department stores, discount houses, chain stores, mass distributors, supermarkets, and shopping centers.

4. **Key to Mass Distribution :** Despite the rapid growth of chain stores, discount houses, shopping centers, etc., the independent dealer is still an important factor in our system of mass distribution.

5. **Better Marketer :** In fact, the independent merchant is today a better merchant, a better salesperson, and a more resourceful marketer because of the competition of the chains. By adopting new methods of display, self-service, checkout, and the rest, even the small merchant can often survive and make a profit in competition with the mass distributors.

6. **Choice of the Customer :** Although his prices may be higher, he depends on neighbourhood trade and on the millions of consumers who prefer to do business with "the shop around the corner".

7. **Front Line Activity :** Larry Rosenberg writes, "In the field of consumer marketing, retailing is the front line, the final step and also the early warning system for producers. It is the producer and retailer who 'take the temperature' of the consumer and gather information for future marketing strategies.

8. **Small Investment :** It is relatively easy to become a retailer. No large investment in production equipment is required, merchandise can often be purchased on credit, and store space can be leased with no 'down payment." This case of entry into the retail business results in fierce competition and better values for customers.

9. **Catering to Consumers :** To enter retailing is easy; to fail is even easier! To survive in retailing, a firm must do a satisfactory job in its primary role – catering to consumers. Stanley Marcus, described a successful retailer as "a merchant who sells goods that won't come back to customers who will." Of course, a retail firm also must fulfill its other role-serving

producers and wholesalers. This dual role is both the justification for retailing and the key to success in retailing.

10. **Nearer to the Consumption Pole :** Mandell, etc. have observed that "If we think of production and consumption as the two poles of the distributions process, wholesaling would be nearer to the production pole and retailing would be nearer to the consumption pole."

11. **Atleast One Middleman :** William Stanton writes, "Distributing consumer products begins with the producer and ends with the ultimate consumer. Between the two there is usually atleast one middleman – a retailer."

12. **Performs Double Role :** Retailers serve as purchasing agents for consumers and as sales specialists for producers and wholesaling middleman. They perform many specific activities, such as anticipating customers' wants, developing product assortments and financing.

13. **Creation of Economic Utility :** Retailers go beyond merely selling products off the shelf. They add value to the goods and service they sell creating time, place, possession and form utilities. Retailers create place utility by operating stores in convenient locations. They create possession utility when they deliver products in the consumers' hands.

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1.8   Intermediary Assistance By Retailers

In modern distribution process retailers have a lot of importance. Retailers as an intermediary, provide assistance to other channels of distribution and thus benefit manufactures/wholesalers and customers.
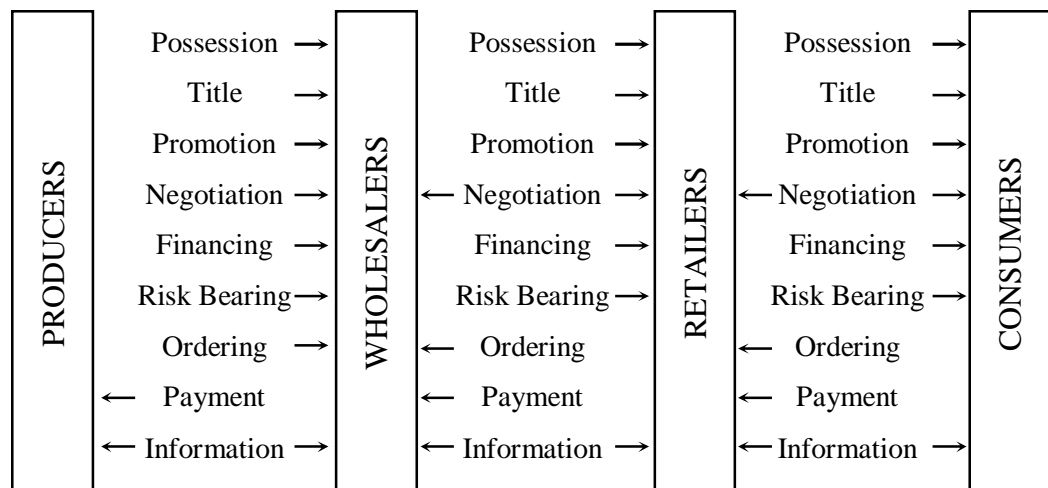

Figure 1.3 - Marketing Flows in a Channel System

1.8.1 To the Producers or Manufacturers

1. **Sale of Newly-launched product :** Retailers are important people who create a market for the new products. They sell the merchandise with their leadership and expertise.

2. **Knowledge of Consumer's Interest and Fashion :** Retailers are directly related to consumers. He tries to know the opinion of the consumers regarding the product. They keep giving the feedback to the wholesalers regarding the interest of the consumers who inform it to the manufacturer and thus he tries to bring changes in it.

3. **To know the Default in Goods :** Retailers get to know about the default in goods through consumers. They inform it to the producers so that their can be qualitative changes.

4. **To Advertisement :** Retailers display the products of manufacturers and create awareness in the customers regarding the quality of the goods, availability etc.

1.8.2 To the Wholesalers

1. **Free from Selling Difficulties :** Retailers purchase sufficient goods in small quantities from manufacturers. So, the wholesalers take the responsibilities of goods stored and releases their tension of sale.

2. **Increase in Profits :** Retailers popularize the commodity by propagating the quality and utility of the goods to the consumers. As a result demand for goods increases and the wholesalers are benefited.

3. **Free from Inconvenience of Sale :** It is very inconvenient to sell goods to large customers according to their needs in small quantities. But, retailers take this responsibility and saves wholesalers from this difficulty.

4. **Information about Changes of Taste :** Retailer is in direct contact with the consumers. He immediately comes to know of the interest, habit and changes in fashion. This information is transferred from retailer to wholesaler.

5. **Free from Local Advertising :** The market of retailer is local. So he himself does the advertising of his shop and commodity but the wholesaler is free from this worry.

6. **No Need to keep Contact with the Customers :** If a retailer is absent in distribution middleman process then wholesalers will have to have to establish relations and contacts with the consumers. Wholesalers needs both time and make efforts to do this. Retailers stay with the consumers so they are in close contact with them and the wholesaler does not have to have direct link with the consumer.

7. **Help in Maximum Sale :** Retailers due to their personal contact and relations, easily influence and persuade the customers to buy certain things. Customers on their advice purchase things without any hesitation and thus it results in the increase in the sale of wholesalers.

1.8.3 To the Consumers

1. **Availability of Fresh and New Goods :** Retailers store only that much quantity with them which can easily be sold. So they demand new and fresh goods every time to supply them to the consumers.

2. **Free from Storing Goods :** Retailers are always ready to sell goods of necessity through their outlets. As a result consumers have hope that whenever the need will occur they will immediately get it from retailers and they will not store them unnecessarily in their homes.

3. **Facility of Exchange or Return of Goods :** Retailers try to satisfy their customers in every respect. They often exchange the defective and damaged merchandise.

4. **Credit Facility :** Though the retailers generally sale the goods on cash payment, but sometimes they even provide credit facility to their key customers. They even sell goods on easy installments.

5. **Availability of Goods according to Fashion and Season :** Retailers have complete knowledge of seasonal goods. They also know of the latest fashion and interest of the people therefore they provide or supply goods to the customers according to the trend and season.

6. **Saves Time :** Retailer always tries to stay close to the customers therefore they open their shops in the heart of the city. Consumers do not have to wander here and there searching for the goods of their necessity and thus it saves their time.

7. **Information about New goods :** Retailers are the best source of giving information to the consumers about the new manufactured goods. They inform the consumers about the new commodity quality and its use and enhance knowledge of the consumers.

8. **Expert Advice :** Retailers trade in variety of goods of their manufacturers. Therefore they have practical knowledge of comparative merits and demerits of goods and they are expert in giving advice to their customers regarding any merchandise.

9. **Facility of Choice :** Retailer has to fulfill the personal demands of every consumer therefore he keep all the goods in demand in the outlet. Customers have great convenience in selecting goods of his choice and interest.

10. **Extra Facility :** Retailers also provide facility of home delivery to their key customers. They welcome the customers and show respect to them.

1.9   Retailing in India

A 2012 PWC report states that modern retailing has a 5% market share in India with about $27 billion in sales, and is growing at 15 to 20% per year. There are many modern retail format and mall companies in India. Some examples are in the following table.

Indian Retail Group	Market Reach in 2011 and Notes
Pantaloon Retail	65 stores and 21 factory outlets in 35 cities, 2 million square feet space
Shoppers Stop	51 stores in 23 cities, 3.2 million square feet space
Spencers Retail	200 stores in 45 cities, 1 million square feet space
Reliance Retail	708 mart and supermarkets, 20 wholesale stores in 15 cities, 508 fashion and lifestyle ₹1206 crore (US$200 million) per month sales in 2013
Bharti Retail	74 Easyday stores, plans to add 10 million square feet by 2017
Birla More	575 stores nationwide
Tata Trent	59 Westside mall stores, 13 hypermarkets
Lifestyle Retail	15 lifestyle stores, 8 home centers
Future Group	193 stores in 3 cities, one of three largest supermarkets retailer in India by sales ₹916 crore (US$150 million) per month sales in 2013

Table 1.1 – Retail Scenario in India

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1.10 Summary

Retailers refer to that bond, which is the final middleman chain in good distribution chain. In other words, he is a kind of trader who purchases goods from wholesalers and producers and keep selling them in small quantities to its customers according to their needs. They keep all the goods of consumer's need in a particular shop or keep moving in the streets to sell their goods.

Retailer is a middleman between manufacturer or wholesaler and customer This is the reason that the retailers have special significance in distribution process.

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1.11 Self Assessment Questions

1. What do you understand by Retailing? Discuss the essential elements for success of a retailer.
2. What are the functions of retailers?
3. Point out the Pre-requisites of Retail Trade.
4. How retailers are helpful to consumers.
5. Explain elements for success at Retailer.
6. How retailing contributes to the economy of nation by its functions? Explain.

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1.11 Reference Books

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Unit 2 Retail Formats

Structure of the Unit

2.0 Objectives

After completing this unit you will be able to understand:
- Meaning of retail formats
- Two types of retail formats
- Type of food retailers
- Type of non-food retailers
- Types of retailers on the basis of ownership

2.1 Introduction

With the increasing industry concentration and globalisation, the Retail Business Scenario in India is changing rapidly, leading to a growing diversity of retail formats. Over past 20 years there has been emergence of wide variety of retailers, where one can purchase staples to various luxurious items. All these new formats coexist with the traditional form of retail. Each form of retail offers different kind of benefits and hence different group of customers from different socio-cultural structure favour different formats. With non- store retailing becoming popular retailing has taken a new shape.
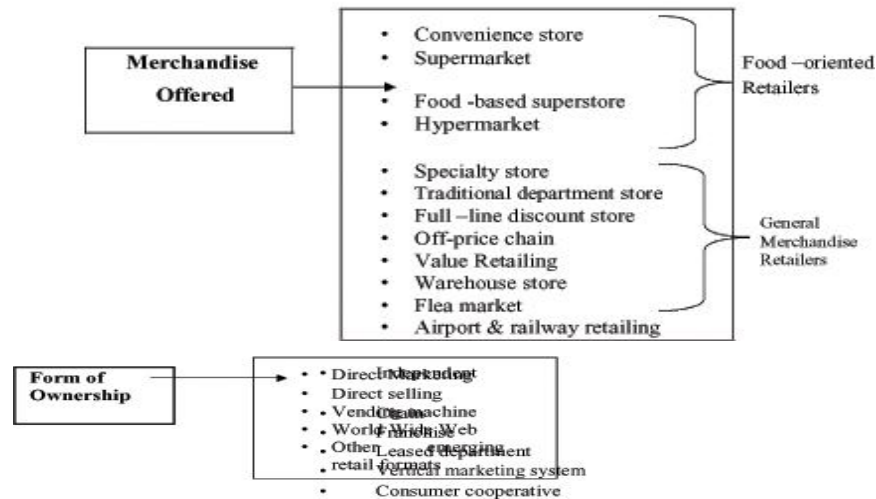
2.2 Retail Formats

A retail format is a type of retail mix, used by a set of retailers in order to offer value to the target customers through store design or visual merchandising, typical location, offered merchandise and services, pricing policy, advertising and promotion program etc. The basic components for retail formats are the same but it is the relative degree of focus on the above components provide basis for formation of different retail formats. Hence it is sometimes defined as Business Model of the Retailer.

Types of Retail Formats

The basic classification of retail formats is based on:

- Store based Retail Strategy Mix

- Non - store based Retailing Strategy Mix (See Chapter 4)

Store-based
Retail Strategy Mix

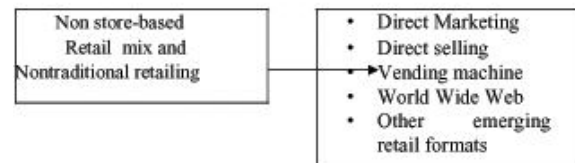**Non - store Based**
Retail Strategy Mix

Figure 3.1: A Classification Method for Retail Formats

2.3 Retail Formats on the Basis of Merchandise

On the basis of merchandise they deal in, the store-based retailers have been categorised into the Food Retailers and Non-Food or General Merchandise Retailers. Many general merchandise items sold by food retailers are purchased quite frequently. That is the reason that these items are clubbed with food items.

S.No.	Food-Oriented Retailers	Non-Food Retailers
1	Significantly deal in food items	Deal in non-food items- apparels, furnishings etc.
2	Items are purchased frequently	Items are purchased less frequently
3	Average unit value of merchandise is low	Average unit value of merchandise is high
4	Less variety in formats is found	More variety in formats is found

2.3.1 Food Retailers

A significant proportion of the sales of food retailers include food items. According to Technopak studies food and grocery items constitutes 70% of the total retail sales. In India the organised retail in food and grocery segment is worth $1 billion that represents less than one percent of the total food sales. This shows that there are great opportunities for food retail business in India. Traditionally, in India, food needs are being met by local daily fresh produce markets, weekly Kisan mandis and local traders. But due to rising income and changing lifestyles of people, along with fresh fruits and vegetables, grocery and traditional staples, there has been a growing demand for the food categories such as processed food, lifestyle food, convenience food, organic food etc. where food retailers have created a niche for themselves.

Walmart is the world's largest food retailer followed by Carrefour (France). Reliance Retail's Reliance Super and Reliance Fresh is the largest food retailer in India. The different Food Retail Formats are:

Convenience Stores

In India, almost seven million out of 12 million retailers, sell food and grocery products. Traditionally, the convenience stores are run by a single owner, ownership is hereditary.

• A convenience store is typically conveniently located, food-oriented retailer that carries limited number of items and is open for long hours.
• It provides average customer services at above average prices in average atmospherics
• Provides ease of shopping, customer has routine rapport with the owner, retailer is considerate and specifically appealing to the customers, offers over-the counter delivery and may provide home delivery.
• Situated in vicinity or customer's locality thus reducing consumer's travelling time and customers can pay multiple visits during a day or week.
• Now upgrading their level of the services and efficiency to compete with large formats by using technology.

In organized sector convenience stores are located in convenient space of 3000 – 5000 sq.feet. They enable speedy checkout to customers by facilitating quick purchase. They offer limited assortments and variety majority of their sales come from perishables and the items that are consumed within 30 minutes of purchase. Convenience stores are very popular in Japan. *7-Eleven Japan*, the most successful chain of convenience stores has developed efficient Point of Sales (POS) operations; open twenty-four hours a day, seven days a week including Sundays and public holidays.

Few examples of convenience retail formats in organised sector are given as under:

Retail Organisation	Convenience Formats
Spencer's	Daily, Express
Bharti Retail	Easy Day
Reliance Retail's	Reliance Fresh

Supermarkets

A supermarket is a large, self-service store offering a wide variety of food, grocery, perishables and household nonfood items. Supermarkets are usually owned by corporate chain. They may be characterised as follows:

• Product categories are organised as different departments in the retail store. The supermarket has separately identified areas for fresh fruits and vegetables. dairy products and baked food products, canned and packaged food, a variety of household goods.

• Both variety and merchandise mix are average.

• Usually situated in vicinity of residential localities to provide accessibility and is open for long hours.

• Certain supermarkets focus on quantity sales and offer products at low margins i.e., Every Day Low Pricing (EDLP). Profit Margins on staple food items like bread. milk and sugar is very low to generate profits by selling in large volumes.

• Supermarket retailers use mass media like newspapers and television channels for sales promotion and publicity.

In context of Indian marketplace, the supermarkets are categorised as:

(i) Large supermarkets with an area of 3,500-5,000 sq ft eg. Reliance Super
(ii) Mini supermarkets with an area of l,000-2,000 sq ft.
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Retail Organisation	Supermarket Formats
Spencers	Spencer's Super
Future Group	Food Bazaar
Reliance	Reliance Super
Aditya Birla Group	MORE
REI	6 to Ten
Jubilant Group	Monday to Sunday
DFI	Food world

Foodworld Supermarket, one of the pioneer supermarket chains, was created in 1995 through a technical agreement between RPG Group and Hong Kong—based Dairy Farm International (DFI). Later half of these stores were rebranded as Spencer`s by RPG group. In order to compete successfully against intrusions by conventional retailers, supermarkets are :

1) Emphasising fresh, organic food items and perishables.
2) Targeting and attracting health-conscious and ethnic consumers.
3) Providing economical and better value private – label merchandise eg 'Value' brand by Food Bazaar (Big Bazaar)
4) Improving shopping experience and customer service through food tasting, demonstrations etc.

Hypermarket

The concept of hypermarket originated in the suburbs of Paris, by the name Carrefour in 1963. The purpose of the hypermarket is to provide every product under the same roof.   A hypermarket is a large retail facility combining certain features of supermarket and department store as well. The hypermarket retail concept has three basic percepts:

l.   Occupies a large floor space, varying between 40.000 sq ft to 200,000 sq ft with a large parking lot.

2.   It aims to sell products at a lower price as compared to market prices and thus offer low price points.

3.   It deploys *self-service* techniques based on effective merchandising and sales promotion methods.

Apart from grocery and food, hypermarkets sell a variety of other household products like general merchandise, clothing, electronics items, electrical gadgets etc. Variety and discounts lead to impulsive purchase by customers, paving way to higher margins. The contribution of general merchandise in total sales is between 25 to 40%. Large space and high number of footfalls result in operational efficiencies and cost savings. They aim at 'monthly bulk shopper` or weekly shopper'. That is precisely the reason that one-third of total investment into modern retail is going into hypermarket format.

Carrefour is very successful in Europe, China and South America but not much in United States and Japan. The other international giants in hypermarket format are Auchan, Casino, Tesco, ASDA, lntermarche.

The few examples of hypermarket format in India are as follows:

Retail Organisation	Hypermarket Format
Spencers	Spencer `s Hyper
Reliance Retail	Reliance Mart
Future Group	Big Bazaar
Food Express Chain	Jumbo, Total
Trent (Tata Group)	Star India Bazar
Raheja Group	Hypercity

Hypermarkets prefer sub-urban or out-of-town, standalone locations as they need huge space for merchandise and parking and other facilities. lt can be located inside the malls also. E.g. Future Group prefers to establish Big Bazaar stores in Malls as the location increases the footfalls.

Supercentre

Supercentres are large stores, combination of an economy supermarket with a discount departmental store. Sometimes Supercentre is also called American version of European Hypermarket. The largest supercentre chain in USA is Wal-Mart that operates 2,700 Supercenters across the country. Others are Meijer, Super Kmart Center (Sears Holding), Super Target (Target) and Fred Meyer(Kroger).

The customer comes to this retail store to purchase groceries but purchases general merchandise as impulse. General merchandise has higher profit margins enabling supercenters to price food items at discounted rate. Hence, the general merchandise contributes 60%-70% to the total revenue of supercenter. Supercentre may stock l,00,000-l,50,000 SKUs and food items act as traffic builders for them. Both hypermarkets and Supercentres are also known as **Big-Box** stores (large, limited service) due to holding large volume of stocks.

2.3.2 Non-food or General Merchandise Retailers

If more than half of the sale of the retailer is generated from nonfood or general merchandise items it is generally defined as general merchandise retailer. It may include textile clothing, apparels, footwear and accessories, luggage, gift items, household items, home improvement items, computers, florists, books, electrical and electronic goods, gadgets, automobiles etc.

The variety in non-food formats depends on emerging variations across general merchandise categories. The difference is due to the fact that in case of food items. The major types of general merchandise retailers are Department stores, Discount stores, Speciality stores, Category Specialists, Value retailers, Off-Price Retailers, Warehouse clubs.

Department Stores

A department store as a retail format deals in a broad variety and with deep assortment of product categories. It specialises in different product categories known as departments. Each department within the store has a specific selling space allocated to it, a POS terminal to transact record sales, and salespeople to assist customers. The department store often resembles a collection of specialty shops displaying concerned merchandise under departments like clothing and apparel, house wares, cosmetics, sport goods, footwear, furniture, appliances, jewellery, toys etc. They may be characterised as follows

- Shopping experience and store ambience and atmospherics like visual displays lighting etc. differentiates this format from other retail formats

- It is basically one-stop shop where customer needs related to general merchandise may

  also be fulfilled.

- Store is based on *suggestive selling* by its sales team and provides variety of services like gift packing, alteration of apparel and home delivery.

- The categorisation of merchandise is done on the basis of nature of procurement of merchandise, related products-category management, customer needs, promotion, customer services and control.

The largest department store chains in USA are Sears, JC Penney, Federated Department Stores etc.Some examples of department store chains in India are as follows:

Retail Organisation	Department Store Format
Raheja Group	Shopper's Stop
Trent (Tata Group)	Westside
Landmark Group	Lifestyle
Future Group	Pantaloons
Piramal Group	Piramyd Store

Landmark group's Exclusive Speciality store Lifestyle brings together five concepts under one roof - apparel. footwear, children`s wear and toys, furniture and home décor. lt has positioned itself as a trendy, young. colourful and vibrant store.

The department stores are further divided into two categories:

(i) **Traditional Department Stores**: These stores basically target the middle class customers. Both prices and quality are set moderately to target this segment. However, the level of services can be from assorted to upscale. Some of the traditional stores are positioned as mid-range to up-scale. For example, Sears and Macy in USA and Pantaloons in India targets middle-class shoppers interested in medium quality and prices.

(ii) **Full Line Discount Stores** : These stores offer broad product assortment at discounted prices. Many discount stores have started offering private labels in order to create their separate identity and differentiate their product offerings. It offers limited customer services, products are sold with minimal sales personnel assistance. The target market is mass market, but still major clientele is middle and lower middle class shoppers, looking for good value proposition. The discount they offer can be in different forms like category discount, brand discount, loyalty discount. Wal-Mart, Target, Kmart are major discount stores in USA. In India, Vishal Megamart, V-Mart are popular discount store chains.

Speciality Store

A speciality store is the retail format that specialises in a specific category of merchandise and its related items. They may be characterised as follows:

• It usually carries a narrow(specific) but deep assortment in the chosen category. It allows comparison between brands in a category.

• It forrnulates strategy focusing on the specific merchandise offered to the given market segment. This helps to create better identity and sales goodwill than competitors. Department stores offer stiff competition to it.

• They provide high levels of service and expertise.

• Specialists stores offer '*Consultative Shopping'* where a salesman is well-trained in offering specialized information and suggestions to customers while making purchase decisions.

• Since most stores in specialised categories need much lesser space in comparison to the existing formats, such as lifestyle and hypermarkets, they are likely to come up in malls.

The speciality merchandisers can be divided into four categories:

(i) **Multiple Lines Speciality Stores -** They offer products across different categories which are usually interrelated. For example, multiple line and multi-brand electronics and consumer durables countrywide. Retail chains like *Reliance Digital*, *Croma.* and *The Next*, fall into this category. Kolkata-based Nik-Nish is a *lifestyle gift specialty* store specializes in 55000+ gift items ranging,across costume, jewellery, watches, show pieces, toys and gift items, crystal ware, flower and vases. hand bags, foot wear and kitchen ware categories. Khadi and Village industries Commission (KVIC) is set to rollout upmarlcet *Khadi Plazas', displaying Khadi products with smartened looks with better appeal to the young consumers.

(ii) **Single Line Speciality Stores -** Retailers Limit their product offerings to just one product line. and sometimes only one product. Small website may sell a single product such as computer gaming software. The Tata group has positioned itself as leading Gold and Diamond jewellery—manufacturing company under the brand *Tanishq*. The *Ethos* Swiss Watch Studio is lndia`s largest chain for Swiss watches. *Bata (India)* is also an example of single line speciality retailer. Other examples include 'Mom & Me ' and 'Mom & Pop' shops. ln Europe. *Zara*, a major speciality retailer in fashion apparel. In India, lTC's *Wills Lifestyle* is an example of exclusive or lifestyle speciality stores. lt offers Wills Classic formal wear, Wills club lifc eveningwear and trendy range of designer accessories. Similarly *Crossword* specializes in books, *Archies Gallery* in cards and gifts, *Stylespa* and *Ebony Gautier* in furniture, *The Body shop* in personal care, *Lilliput World* in children's and youngsters' apparels.

(iii) **Drugstores -** Drugstores are specialty stores that concentrate on health and personal grooming merchandise. Pharmaceuticals often represent over 50 percent of drugstore sales and an even greater percentage of their profits. Drugstores are facing considerable competition from pharmacies in discount stores and supermarkets. In response, the major drugstore chains are building larger stand-alone stores offering a wider assortment of merchandise, more frequently purchased consumer products and drive through windows for picking up prescriptions. To build customer loyalty, the chains are also changing the role of their pharmacists from dispensing pills to providing health care assistance and personalised service. For example, Planet Health, Apollo Pharmacy, Reliance Wellness Stores etc.

(iv) **Category Killer** - It is also a type of speciality retailer. The approach of Category killers is to dominate the category and kill the competition in that product category. It may be characterised as follows

- lt offers low prices within a particular category so that it is able to convert most of the prospective buyers into actual buyers.

- They have come up as one-stop shop for cost-conscious and time-conscious shoppers. On the basis of convenience, quality and price in a specific category, this type of retailer develops distinct core competence and 'kill' other retailers as other players may find it difficult to operate profitably in that category.

- They are able to make profits by buying products at low prices in huge bulk and keeping the overheads low as they offer only very basic facilities and high inventory turnover. The emergence of such stores has posed a stiff competition to the department stores.

The Home Depot in home improvement category. *Best Buy* in electronics. *Staples* in office supplies, *Sport Authority* in sporting goods and *amazon.com* in books, *the Mobile Store* that offers mobile and accessories are examples of category killers in different categories.

A good example of category killer from online business is eBay. As an online auction site, it has a natural monopoly, as buyers and sellers are naturally attracted to the largest, most liquid market. As a result, their business has almost no competition and has confined similar auction sites like the ones run by yahoo to a very small portion of the market.

Value Retailing

The concept of 'Value Retailing` has become popular format these days, found generally in sub-urban areas and target shoppers from low income. In USA, examples of popular value retailers are Family Dollar, Dollar Tree and Dollar General.

Fashion Value has been added as a new chain stores by Pantaloons Retail (India) Limited in its portfolio- Brand Factory. It has tried to combine discount and better shopping experience into one. The Brand Factory outlets offer seamless space, with fully air-conditioned. sleakly designed with parking space, and span across 60,000 to 1,00,000 sq ft each. Brand Factory stocks a host; of lifestyle products such as - apparel, accessories, cosmetics, footwear, home linen and luggage. Brands to be retailed include Arrow, Esprit, Van Heusen, Levis, Reebok, Lee, Pepe Jeans, Wrangler and Provoguc. It offers specialised discounted products by brands, The target customers are those belonging to the 20-35 years age-group. Mumbai-based The Loot store, My Dollar Shop are good example of value retailer.

Off-Price Retailers

Off-price retailers offer an inconsistent variety out of vogue merchandise. They source merchandise from manufacturers at low prices and in big lots.

- The merchandise is either out of fashion or of odd sizes and colours or with minor manufacturing defects (Seconds) or export rejects.

- They are able to strike a good bargain with vendors

- Sometimes they mix up their merchandise bought at low-price with merchandise bought at regular wholesaling prices in order to improve the consistency of their product offering. They purchase off-season merchandise or the merchandise from closed out retailers.

- Sometimes in order to build goodwill the retailers offer excess discounts on merchandise bought through off-price outlets so that they do not have to offer discounts at their main retail outlets.

Warehouse Clubs

A warehouse club is a retail store, usually selling a wide variety of merchandise, in which customers may have to pay annual membership fees in order to shop.

- The clubs are able to keep prices low due to low overheads, as not many promotions are

   required.

- Customers arc required to buy in bulk. Even the small business owners and institutional buyers like caterers make purchases from the wholesale clubs.

- The retail design and layout give appearance of a warehouse.

   The merchandise categories range from food to FMCGs to home furnishings and many others.

.The cash-and-carry is variant or another name given to wholesale club. Among Indian retailers, Big Bazaar and Reliance have already made headway by setting up Stores. Walmart had established *Best price* cash and carry store on similar lines.

Type of Retail Format	Nature of Merchandise	Width and Depth of Merchandise	Type of Location	Pricing Policy	Level of Services
Convenience Store	Food, Grocery and Household items	Medium width Shallow depth Average Quality	Residential Area Neighbour Markets	Average and above average	Highly Personalised Average Services Home Delivery
Supermarkets	Food, Grocery and Household Items	Extensive width Shallow depth May offer Private Labels	Neighbourhood Market	Competitive	Average and Self-service
Hypermarkets and Supercentres	Food, Grocery and other general merchandise, may sell some services	Extensive width Medium depth May offer Private Labels	Stand alone locations, Malls	Lower than market prices	Self-service
Traditional Department Stores	General Merchandise-Apparel,	Extensive Width Deep depth Good to high Quality	Business Districts, Stand-alone Strip shopping	Above average	Assorted to Full Services
Full-Line Discount Stores	General Merchandise Medium quality	Extensive width Medium depth Medium quality	Business Districts stand alone Strip shopping centres	Discount Pricing	Average Services
Speciality Stores	General Merchandise, Single line and Multiple lines	Narrow width Deep depth Usually high Quality	Business Districts, Strip shopping centres Malls	Average to above average Premium Pricing	Personalised Full Services

Category Killer	Speciality Products Average to High	Narrow width Deep depth	Stand-alone Strip shopping centres	Discount and Competitive Pricing	Assorted
Off-Price Retailers	General Merchandise Inconsistent sizes etc.	Medium width Shallow depth	Stand-alone Shopping strip Any low rent location	Very low	Minimal services Self-service
Value Retailers	General Merchandise, Multi-brands	Medium width Shallow depth	Stand-alone, Shopping Strips Any low rent location	Highly Discounted prices	Average
Factory Outlets	General Merchandise Self-Manufactured items, Inconsistent	Moderate width Shallow depth	Stand-alone location, Factory Premises Any low rent location	Highly Discounted prices	Self-service
Wholesale Clubs	General Merchandise and	Moderate width Shallow depth	Stand-alone, out of town industrialareas	Very prices	low
Flea Markets	Some General Merchandise Items	Extensive width but very shallow depth	Open Surroundings Low rent Semi-Urban Locations	Bargaining, Low prices	Low services

Table 2.1: Store Based Retailers

Flea Market

Flea Market is a traditional, often temporary marketplace, generally set in an open area occupied by different traders dealing in different categories of product, Facility of trading goods (stall, water, electricity) may be availed by paying some fee to municipal corporation or other concerned authority. Shoppers can strike good bargain with the retailers. The merchandise is almost inconsistent, and it can range from food articles to apparel to electronic goods. Most of products are local brands or may not be branded at all For eg. Crawford and Zaveri Bazar in Mumbai, Janpath in Delhi. In small cities flea markets are located near railway stations and bus-stands. Weekly flea markets also also organised eg. *Haat*

Airport Retailing

The airport retailing is one of the fastest growing niches of retail. This has been made possible due to rapid growth of air passenger traffic and investment made in the sector. Moreover, with an increase in the number of low-cost 'no-frills' airlines and connecting flights with long layover durations, passengers demand for variety of pastimes and food items while waiting at airport or while flying on board. That has created demand for food retailers.

As per latest trends, airport retailing is growing at a very fast pace. With an eye on future, major Indian retailers have collaborated with leading international retailers:

1. Shopper's Stop with Nuance, Switzerland, a leading international airport retailer

2. Future Group with Alpha Retail, UK

3. Tata with Woolworth, Australia to start Croma Zip

Mini shopping plazas have been created at major airports in India where anchor stores of retailers have come up eg. Barista, Café Coffee Day, Shopper's Stop, Lifestyle, Hidesine etc. . The target audience comprises passengers, visitors and escorts. There is great opportunity for retailers dealing in confectioneries, apparels, accessories, brown goods, white goods, perfumes, cosmetics, liquor and tobacco. The duty-free shopping is a major attraction.

Railway Retailing

Railway station is the natural destination of future retailing in India. The Metro railway stations have already shown some way. With railway stations at New Delhi and Mumbai Railway alone have commuter traffic of 3.5 and 4 lakh respectively, the conversion rate of even I0-15% throws open opportunity far greater than airport retailing. All major retailers including Vadilal, Mother Dairy, Tata Group, Reliance, Future Group have shown keen interest in railway retailing.

The unutilised and underutilised properties at railway stations may be developed under public private participation. The intent of the government to develop few stations as world class has also given impetus to the process.

Name of Retailer (Year of Establishment)	Main categories	Principal Fascia	Current Format/S
Pantaloon Retail (I) Ltd (1993)	Food, Apparel, Home & Many Ohter	Big Bazar, Top 10, Food Bazar, All Central, BF, Pantaloons, Depot, Hometown, Navaras, Blue Sky, Fashion Station, Tulsi	Wide Spectrum
Reliance Retail Ltd (2006)	Food, Apparel, Books Footwear, Jewellery	Reliance Fresh, Reliance Mart, Reliance Digital, Reliance Footprints, Reliance Timeout, Reliance Wellness, Reliance s Jewels	Super, Hypermarkets, Lifestyle, Specialty
Shopper's Ltd (1991)	Apparel, Accessories, Gift, Home	Shopper's Stop Home Stop, Mothercare, Crosswords, Desicaffe, Brio, Hypercity, Timezone	Lifestyle, Department stores & specialty
Tata Trent Ltd. (1998)	Apparel, Specialty Book and Music	Westside, Landmark, Star India Bazar	Supermarkets, Hypermarkets
RPG Enterprise (1998)	Food, Beauty, Specialty Music	Spencer's , Music World	Supermarkets, Hypermarkets

Landmark Group (1999)	Apparel, Home Décor, and Furnishing	Lifestyle, Home Centre, Max Retail	Department stores, Hypermarkets
Madhura Garments part of AB Nuvo (1988)	Apparel	Louis Philippe, Van Heusen, Allen Solly, SF jeans, Peter England	Specialty, Lifestyle
vivek Group (1965)	Food, Beauty Specialty-Electronic	Vivek, Jaisons, Premier	Hypermarkets Supermarkets,
Globus (1998)	Apparel	Globus, F21	Stand alone Formats
Nilgiri's Ltd. (1904)	Food, Specialty-Bakery Products	Nilgiris	Supermarkets
Trinethra super Retail Ltd. (1986)	Food, Beauty Products	Trinethra super Retail Ltd., Trienthra Quick Shop	Convenience, Super markets & Hypermarkets
Provogue Ltd. (1931)	Apparel, Footwear	Provogue, Prozone	Standalone Stores
Bata India Ltd. (1931)	Footwear and Accessories	Bata	Standalone Stores
Archies Ltd. (1979)	Specialty-Cards and Gifts	Archies, Stupid Cupid	Standalone Stores

Table 2.2 Major Retailers in India

2.4 Retail Formats on the basis of Ownership

Retailers can be classified into four basic categories according to form of ownership.

- Unaffiliated Independents (Independent Retailer)
- Corporate Retail Chains
- Franchise Systems
- Consumer Cooperatives

The first category consists of independents that are not affiliated with other retail operations (sole proprietorships and partnerships). Corporate retail chains generally consist of two or more stores that may include relatively small retail chains as well as large ones. The third category includes franchise agreements that are co-operative and voluntary chains of independently owned operations by retailers or their wholesalers. The fourth category consists of consumer co- operatives, which are retail establishments owned managed by consumers.

Unaffiliated Independents (Independent Retailer)

Unaffiliated independent is an establishment operated as single retail outlet. It is owned and operated by the owner or proprietor who may be assisted by family members and offers a personalised atmosphere and service. The ownership of the store may pass from generation to generation. Because it is independently owned and operated, the store may reflect the tastes and preferences of its owners and customers. It can therefore be very flexible and responsive to change. *Mom-And-Pop Store is a* small retail outlet owned and operated by an individual or family. They focus on a relatively limited and selective set of products.

In India there are several independently owned stores that have been owned and maintained by a single or family. For example Benzer in Mumbai, PKJ Jewelers, Kanishka the famous apparel in Kolkata.

Corporate Retail Chains

In contrast to the single retail store that is independently owned and operated, a corporate retail chain made up of multiple retail units under common ownership and management This type of retail chain is defined as having similar architectural motifs, different stores selling similar lines of merchandise.. and featuring centralised buying at different locations. Corporate chains may vary in size from just two store organisatious with hundreds of outlets. Eg. Arrow, Lee, Wrangler (Arvind Mills), Louis Phillippe, Van Heusen (Madura Garments), Globus, Central etc.

Franchise Systems

A franchise is a contractual agreement between the franchiser and the franchisee, which allows the franchisee to conduct business under a brand name in return for a fee or compensation. Many independent retailers are members of franchise sytems sponsored by manufacturers, distributors, and service firms, Gas stations, for example, are usually owned by independent retailers who operate according to franchise agreements wiith their distributors or manufacturers. Franchise arrangements are commonly sponsored by manufacturers of automobiles, appliances, apparels, food etc.

The growth of franchise systems in the fast food industry is illustrated best by the success of McDonald·s, Pizza Hut , Dominoes, Baskin Robbins etc.

Consumer Cooperatives

A consumer cooperative includes retail operations that are owned and managed by consumers. Such operations are known as consumer cooperatives, because member consumers usually cooperate in buying, transporting, and pricing the goods sold for the store. Consumer cooperatives saw their peak during the inflation-ridden 1970s as individuals sought to get control of prices. Examples of cooperatives in India are UPHAR, Sahkari Bhandar, Mahila cooperative stores etc.

2.5 Summary

Retail format gives a quick idea to describe strategic mix adopted by the retailers in terms of Target Market Segment, Merchandise, Pricing, Communication mix, Location and Customer services. Store retailing can be classified on the basis of merchandise offered and ownership. On the basis of merchandise Retail Formats can be classified as Food and Non food Retailers. Convenience stores. Supemarkets. Hypcrmarkcts are popular Food retailers. Convenience stores or Kirana Stores located within or very near to residential areas. Supermarkets and hypermarkets are selfservicing formats. Hypermarkets are characterised by exclusive parking to customers.large in size and offer great variety to customers. Non food retailers include Department stores, speciality stores, off-price retailers, warehousing clubs. Department Stores sell broad variety and deep assortment of general merchandise. Speciality stores specialise in and deal with specific range of merchandise. They can be further be categorised as Multiple line and Single line, Drugstore, Category killers. Value retailers offer advantage of brand with pricing. Off-Price retailers offer merchandise, especially apparel, which may not be of very consistent variety at very low prices. Warehouse clubs or Membership clubs provide membership to their customers to enable them to make purchases in bulk. Small retailers also make purchases from these cash-and-carry formats.Airport retailing and railway retailing are new retail concepts built around passenger traffic. On the basis of ownership Retail Formats can be independent retailer, corporate retail chain, franchising and consumer cooperatives. Other retail formats are evolving continuously.

2.6 Self Assessment Questions

1. Differentiate between (i) Supermarkets and Hypermarket and (ii) Off—Price retailers and Warehouse Clubs
2. Discuss Category Killers.
3. "Speciality retail formats are becoming popular in India.".Identify the reasons behind it.
4. Discuss Speciality Retail Format in detail.
5. Discuss Department Store retail format in detail.
6. Discuss the characteristics of retailers on the basis of elements of Retail Mix.
7. Discuss the main General Merchandise Retail formats.
8. Discuss developments in India in context of retail formats.

2.7 Reference Books

- Levy Michael, Brton A. Weitz and Pandit, Retailing Management , Tata Mcgraw Hill , 8th Edition
- Berman and Evans and Joel R., Retail Management, Pearson Prentice Hall, 9th Edition.
- Levy Michael and Weitz Barton A. Retailing Management, Tata McGraw-Hill, Edition 2003.
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Unit 3 - Non Store Retailing

Structure of the unit

3.0 Objectives

After completing the unit you will be able to understand:
- Meaning of non-store retailing
- Meaning of single channel and multi-channel retailing.
- Advantages and disadvantages of non-store retailing.
- Meaning of direct marketing and direct selling
- Other non-store retail formats

3.1 Introduction

The retailing methods discussed in the previous chapters were store retail formats, in which customers physically purchases at store. In contrast, non-store retailing is the format where selling is done without going to the physical stores Non store retailing is targeted to time conscious consumers and consumers who can't easily go to stores, or are compulsive buyers. The non-store retailers are known by medium they use to communicate with their customers, such as direct marketing, direct selling, teleshopping, kiosks, vending machines or e-tailing.

3.2 Multi-channel Retailing

As the firm grows, it may turn from a single-channel retailing (often store based retailing) to multi-channel retailing, where retailer sells to consumers through multiple-channel retail formats along with store based retailing. Thus the firm may combine store and non-store retailing to actively pursue multi-channel retailing. For example, in India retail leader Future group sells through its stores (Big Bazaar, Pantaloon, brand Factory, FBB etc.) as well as through its website (futurebazaar.com). Similarly, cola giants - Coke and Pepsi sell their product through retailers and also through kiosks placed at different locations like airports, railway stations, shopping malls etc. By using combination of channels retailers can better exploit their consumers' needs by exploiting the advantages and overcoming the limitations of each channel. For example the greatest constraint before store-based retailers is the space in their stores that can easily tackled by resorting to non-store retailing.

Sometimes single-channel retailers may only be engaged in non-store retailing. This happens when they use non-store based retailing like e-tailing alone to reach their target consumers and complete transactions. For eg. Snapdeal.com, e-bay.com, jabong.com etc. are all single-channel pure web-retailers. Most non-store retailers offer consumers the convenience of shopping 24 hours a day seven days a week, collecting cash on delivery facility, delivery at location and time of their choice and easy return policy. Non-store sales are rapidly growing and accounts for more than 15% of all consumer purchases.

3.3 Advantages and Disadvantages of Non-store Retailing

3.3.1 Advantages

There are both advantages and disadvantages to non-store retailing. The primary advantage of this form of retailing is its flexibility and freedom from a physical retail presence. It eliminates the high costs of establishing and operating retail outlets. Companies do not have to maintain huge stock or building stores at new locations, or acquiring them.

With the centralized structure, operations are easier to control and costs remain flatter than with physical stores. Once the distribution and promotional network and goodwill has been established, the net profits boost in a way difficult to achieve with physical retail outlets. In case of e-retailing methods, the horizon of customer coverage is considerably wider than any individual retail location. Amazon.com has increased sales by more than 300% in a year, a figure that would be almost unattainable by building opening new stores

The internet, television, telephone, mobile internet etc. has allowed companies an unheard-of combination of reach and customization of consumer focus. Market penetration is affected by coverage and bandwidth, not limited by mailing numbers. This truly gives the non-store retailer a global market from a cheap, centralized location.

3.3.2 Disadvantages

In spite of the advances in speed of processing and delivery, buying an unseen item is still not as satisfying as walking into a store examining the product before purchase and buying it personally. Instant gratification is still a driving force in the retail industry. A significant portion of retail sales is driven by impulse, and the delay in delivery of non-store retail is not as amenable to this as is physical-store retailing. There is also the fear of credit card abuse and mail fraud, both related to the sense of detachment that not holding a prospective purchase brings. And since most of us do not have the luxury of a pricey T1 Internet connection, we must still deal with painfully slow connections.

3.4 Classification of Non–store Retailing

A classification method for non – store retailing includes:

3.4.1 Direct Response Marketing/Direct Marketing

Direct response marketing uses marketing tools that are non-personal in nature, in order to communicate with consumers and eliciting favourable response from them.

The major forms of direct response marketing are:

Catalog Retailing - Catalogue are created and designed for highly segmented markets. This form of retailing eliminates stores operations and even personal selling. The firm uses the customer databases and develops targeted catalogs that give a brief description of merchandise available for selling. This catalogue is either advertised in magazines, newspapers or any other medium or is mailed to customers (post or email). The format offers great convenience to targeted customers as they can simply place the orders by either mailing or calling from their homes. For eg. Times India Shopping , Oriflame (uses catalogs with direct marketing). The limitation of catalog is that once it is printed it cannot be updated or modified (updating price change, discontinuation of a merchandise or inclusion of new merchandise)economically. Hence non-store retailers are nowadays using internet site to provide customers with real-time information about stock availability and price reductions on clearance merchandise.

CATALOGS IN THE DIGITAL AGE

As e-commerce is booming, environmentalists are cracking down on waste, it would seem printed catalogs face certain doom. However, this might not be the case. Marketers mail 1,700 crores catalogs every year, which amounts to 56 catalogs per person in USA. A research study concluded that customer who received a catalog spent 28 percent more money on that retailer's web site. Apparently, receiving a physical and visual reminder to visit a company's web site makes catalogs more important than ever, and there is no substitute for the enticement of those glossy images.

Direct Mail - Like catalog retailing, direct mail also offers marketer to precisely target their customer and their demographics and even psychographics. Mail lists are either prepared from internal database or bought from external sources. Such databases generally include a person's name, address, background data, shopping interests and purchase behaviour. After evaluating such database marketers identify customers with specific needs that may be satisfied by the product they offer and postal letters or e-mails are sent to such customers and sales is tracked. But the consumer lifestyles are dynamic and they might change dramatically over a period of time. Hence, the firm needs to monitor it from time to time.

Electronic Retailing (e-retailing)

Electronic retailing includes online retailing and television shopping, the 24-hour, shop-at-home television networks.

Tele Shopping (Television Shopping) - It is a form of retailing wherein merchandise, along with the retail selling price, is displayed on television for home viewers. The

viewers can place their order directly on phone numbers provided and get the products delivered at home.

Dee's was the first network to start teleshopping in India. It was aired as an hour-long home shopping program on Doordarshan's Metro channel in Delhi. Home Shop 18, TVC Skyshop, Telebrands, Asian Sky Shop have also followed this format in India. Vehicle (Medium) used is infomercials. An infomercial is a program length TV commercial (generally 30 minutes) for a special merchandise that is aired on television. They present detailed information and may include customer testimonials, demonstration of the product use, comparison with other related products, before and after effects of the product with ordering information for different locations.

Online Retailing (e-tailing) - It is a type of shopping available to consumers with computers or mobile phones with internet access. It includes surfing retail website using *mobile app* or computer, and selecting and ordering products online with the click of a button.

Online retailing has many dimensions such as B2B (business-to-business), B2C (business-to-customer), C2C (customer-to-customer, in case of quirk.com, olx.com to name few). It utilises the concepts like e-procurement, e-payments, e-supply, e-ordering, e-placement (uploading the picture of merchandise available for sale, as in C2C) etc.

Online shopping is not only convenient but less costly as compared to store retailing. Since, e-retailers offer attractive promotional offers (discount schemes, 1+1 free, free delivery, cash on delivery, easy returns etc.) to their customers that induce them to make purchase from these retail portals. It also offers multiple benefits to customers, for example, shopping without leaving home, choosing from a wide selection of merchandise, comparing prices across Web sites, and getting hassle free product delivery at the doorsteps. The element of time saving is very crucial as customers save time on traveling and standing in queues for billing.

Despite so many advantages, online retailing has seen little growth in the Indian retail market. Online retail constitutes a petty 7 percent of the total retail sales in India. Some of the reasons identified for this apathy toward online retailing include inability to touch and feel products before purchasing, uncertainty about product quality or standards that would be delivered, lack of trust on safety and security of online transactions, shopping still considered as a family outing, and the desire to bargain for better prices.

However, due to rise in internet penetration and decrease in the prices of smart phones and the burgeoning highly tech-savvy youth segment this retail format will experience an incremental growth in the years to come. Examples of some of the e-tailing ventures in India include MakeMyTrip.com, Myntra.com, and naaptol.com. Some of the established retail chains have also made their presence in this non-store retail format like FutureBazaar.com, shopperstop.com, bataindia.com to name few.

Online retailing has been dealt in detail in forthcoming chapter.

Telemarketing - Telemarketing is the use of the telephone to sell directly to consumers. It consists of *outbound* (from the sales personnel of the firm) sales calls, usually unsolicited, and *inbound* calls - that is, orders through toll-free numbers. The

technique has been used highly by financial product companies for selling product like credit cards, investment plan and insurance policies

However, with consumers complaining about outbound telemarketing, a "do-not-disturb" legislation was passed by government, benefiting such consumers who do not want to receive such unsolicited phone call.

3.4.2 Direct Selling

Direct Selling is a non-store retail channel in which sales personnel interact with customers face–to-face in a convenient location like customer's home or place of work. They demonstrate the merchandise use and benefits or explain the service, take an order and deliver the merchandise. Direct selling is a highly interactive retail channel in which considerable information is conveyed to customers conveniently through face-to-face discussions. Consumers are likely to be more attentive and are not exposed to similar products of competing brands (as they are in retail stores), they often more relaxed at home and can be influenced to take on-the-spot purchase decision. Direct selling includes low overhead costs as stores and fixtures are not necessary.

The merchandise sold through direct selling are personal care (eg. cosmetics, fragrances), home and family care (eg. cooking and kitchenware), wellness (weight loss products and health supplements) and leisure and educational items (eg books, videos, toys, etc). Avon is world largest direct selling firm. It entered the industry with the concept of the homemaker's friend and beauty consultant – the Avon lady. Tupperware on the other hand popularized home-sales-parties method of selling where friends and neighbours are invited to a party at someone's home where Tupperware products are demonstrated and sold.

The direct selling industry started in India in mid-1990s. Eureka Forbes has used this approach for years. More than 70 percent of the sales people comprises of women in India.

A variant of direct selling is *multilevel marketing* whereby companies like Amway, Modicare appoint independent business owners (often known as ABO's in case of Amway) who act as distributors for their products. These distributors in turn appoint other members as their sub-distributors who eventually appoint others to sell their product. This chain grows exponentially and acquires the shape of a pyramid. Hence, this system is also called 'Pyramid Selling'.

Despite its advantages, direct selling has certain disadvantages. A firm's market coverage is limited by the size of its sales force. Sales productivity will become low if the consumers are unreceptive-they do not open the doors or deny talking to sales personnel. In order to motivate sales personnel the compensation paid to them is often high. It may range from 25 to 50 percent of revenues they generate. Other than this there are costs of hiring, training, managing and motivating the sales force. This leads to pricing the product above average that makes merchandise costlier. Door to door selling practices are often not held in high prestige and may dilute firm's image.

3.5 Other Non-store Retail Formats

Kiosks

Kiosk are small, freestanding pavilion, usually placed in a mall, within stores, railway stations, air ports, educational institutions etc.. They are essentially used for the purpose of sales, promotion activities, or giving information.

Fig 3.1 Retail Kiosk

Merchandise/Retail kiosks are small selling spaces typically located at high traffic locations like malls, college campuses, office building lobbies, airports etc. They target customers who are on move. Impulse products like beverages, ice creams, chocolates, popcorn, snacks etc are generally sold at kiosks. Kiosks may be self serviced vending machines. Some kiosks may be staffed and resemble a miniature store or cart that can be easily moved. Nowadays kiosks have evolved as trendy structures with numerous designs, shapes and colours.

I-kiosks (information/interactive kiosk) comprises of computer terminals permitting touch screen operations. It provides either general or promotional information to the customers related to company or product - availability or occupancy, location, quantity, standards.

Indian Railways has installed such kiosks at railway platforms where passengers can seek information related to trains, schedules, seat availability, reservations etc. Vardhman Mahaveer Open University has installed i-kiosks at its 5 Regional Centers in 5 different cities of Rajasthan whereby students can seek information related to various courses, evaluation etc.

Automatic Vending

Automatic vending are has been applied to a considerable variety of unhandled merchandise, including impulse goods (cigarettes, soft drinks, candy, newspapers,

beverages etc.). The sales are done through self-serviced vending machines, which are either coin or card operated, to dispense goods to the customers round the clock, 24-hours. Vending is the most widespread retail business in the USA, with over one crore vending machines, selling a variety of merchandise like soft drinks, candy, ice cream, DVDs, and perfumes.

Advantage of this format of retailing includes very small number of sales personnel are required for operating these machines. The machines are mostly located at convenient locations such as stations, airports, or hotel lobbies. But this format is yet to take off full-fledged manner in India, as marketers do not prefer vending machines as an alternate distribution channel because of coin issues, security of vending machines and erratic power supply. Therefore, their presence is largely restricted to posh locations like airports, malls etc., in form of tea, coffee (eg. Lipton) and cold drink vending machines.

An *ATM* (Automatic Teller Machine) is highly specialised vending machine which allows bank customers 24-hour service on checking balance, withdrawals, cheque deposits, transfer of funds, mobile recharge, bill payments etc. It is perhaps the most successful example of automated vending in India. Another similar vending machine is 'Debit card' vending machine where holder's account is immediately debited upon each purchase he makes unless the card is exhausted.

Pop-Up Stores

These are temporary storefronts that exist only for limited time and focus on a limited range of products or newly launched product offered by a retailer. This format is adopted by marketers during festive seasons, holidays or any other special occasion to increase exposure and convenience shopping without much investment. Online version of pop-up store is temporary private internet sale. Pop-Up stores are an extreme type of sales promotion tool.

3.6 Summary

Non-store retailing is the format where selling is done without going to the physical stores Non store retailing is targeted to time conscious consumers and consumers who can't easily go to stores, or are compulsive buyers. A classification method for non–store retailing includes direct response marketing/direct Marketing or direct Selling. Direct response marketing uses marketing tools like direct mail, catalog retailing, electronic retailing, telemarketing etc which are non-personal in nature, communicate with customers and elicit favourable action from consumers Direct Selling is a non-store retail channel in which sales personnel interact with customers face–to-face at a convenient location like customer's home or place of work. Multi-level marketing is a variant of direct selling. Other non-store retail formats are kiosks and automatic vending.

3.7 Self Assessment Questions

1.   What do you mean by non-store retailing?

2.   What do you mean by multi-channel retailing?

3.   Explain the meaning of direct marketing. Discuss the different methods of retailing using direct marketing.

4.   Discuss the retail formats- kiosks and vending machines.

3.   Discuss direct selling in detail. Is it different from multi-level marketing?

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Unit - 4   : Online Retailing

Unit Structure

4.0 Objectives

After completing this unit you would be able to:
- Understand the meaning of online retailing
- Know when online retail came into existence
- Know the advantages of online retail
- Know disadvantages of online retail
- Understand the factors that initiate online retailing
- Know the precautions to be take while online retailing

4.1 Introduction

India is witnessing an unprecedented economic boom. We can see the effect of this boom all around us. Among others, there has been an exponential rise in consumer spending. At the same time, more and more consumers are looking for easy way to shop since their time is increasingly under pressure. E-commerce or online shopping provides a way out. Given the near universal availability of Internet connectivity, consumers save time and efforts by shopping online. More and more merchants are realising the enormous potential of the medium of Internet and are gearing up to offer products and services.

Terms such as e-commerce or internet commerce have been developed to describe the process in which electronic transactions facilitate the exchange of, and payment for, goods and services between businesses, consumers, government and other public and private organizations using the internet, computer networks and portable electronic devices. Online retailing is a subset of e-commerce and refers to the purchase and sale of goods between consumers and retailers using the internet — also referred to as the business to consumer (or B2C) market. Other terms are interchanged for online retailing including e-tailing. Online retailing establishments can take the form of 'pure plays' in which businesses provide on line only services in particular retail categories or as part of multi-channel establishments where online activities are combined with bricks and mortar operations.

Online retailing can be extremely useful to consumer product and service enterprise especially in the area of: Apparel, Arts and Handicrafts, Books, Car rentals, Computers and Electronics, Cosmetics, Financial Services, Gifts and Novelties, Groceries, Music, Software, Stationary, Sweets and Confectionery, Tours and Travels, toys, services of all types.

4.2 Meaning

Online shopping or **online retailing** is a form of <u>electronic commerce</u> which allows consumers to directly buy goods or <u>services</u> from a seller over the <u>Internet</u> using a <u>web browser</u>. Alternative names are: e-web-store, e-shop, e-store, Internet shop, web-shop, web-store, online store, online storefront and virtual store.

When you buy a product or a service over the internet, instead of going to a traditional brick-and-mortar store, it is called online shopping. Globally, an increasing number of people are buying over the Internet because it is more convenient. Online retailing (also known as B2C or business-to-consumer e-commerce) is basically a Web-enabled interface between company and target consumer for selling products and services on the Web with the facility of online payment.

The OECD (Organization for Economic Co-operation and Development) definition of e-commerce further specifies that it relates to the ordering of goods and services over the internet, but the payment and ultimate delivery of the good or service can be conducted on or offline.

One can purchase almost anything online — starting with groceries and greeting cards to cell phones and ringtones for the cell phones, everything can be purchased online. While most people still find it convenient to buy their groceries from the neighbourhood shop, many people are purchasing rail and air tickets over the Internet. In addition, people and corporate as well, are also purchasing a variety of services online — such as a broking service or job search service.

4.3 Evolution of Online Retailing

Over the last ten years the history of online shopping has been shaped. While online shopping is commonplace now, it hasn't been around forever. The World Wide Web became popular around 1989 and 1990 and has since seen an e-commerce explosion.

The second important step in the history of online shopping, beyond the invention of the Internet itself, was online banking. It was created and developing in 1994, making online transactions possible.

Though surprising, **Pizza Hut** was the first online retailer. They were the first pizza chain to offer online ordering or home delivery during a 1994 test phase in Santa Cruz, California. All locations got the option in 2007.

In 1995, **Amazon** launched as an online bookstore amazon.com. Once the company realized other goods were also at high demand, they expanded to offer a bigger selection of merchandise. The online auction site, eBay, also began in 1995

and quickly grew in popularity. To this day, Amazon and eBay are the biggest online retailers in the world, but India's largest domestic e-tailer is Flipkart

Today, most brick-and-mortar stores have an online counterpart. With faster connections and better technology, the online shopping sector has been able to grow and gain popularity. Many people favour shopping online over going to the store for convenience and price comparison opportunities.

In India online retailers are jostling for a chunk of its $13 billion e-commerce trade. It is growing at a compound rate of 34 per cent a year, and saw online retail sales of $1.6 billion in 2013. According to consultants Forrester online retail sales is expected to surge to $76 billion by 2021.

4.4 Advantages of Online Retailing

Internet has revolutionized the way we do our Shopping. Because of the numerous advantages of Shopping Online more and more people these days prefer Online Shopping over conventional shopping. There are many reasons for buying on the internet which are as follows:

1) Convenience

It is the most convenient method of shopping. Where shopping can be done even in a midnight if a person is wearing night suit. Here there is no need to wait in a line or wait till the shop assistant is ready to help in purchases. Shopping can be done in minutes even if a person is busy, apart from saving time and avoiding crowds. Online shops give the opportunity to shop 24 x 7 and also reward with a 'no pollution' shopping. There is no better place to buy information products like e-books. Immediately after the payment is made information is downloaded. And downloadable items purchased online don't require any kind of material goods at all.

2) Variety

The choices available for products are amazing. One can get several brands and products from different sellers at one place. One can get the latest international trends without spending money on airfare. While online shopping, one can shop from retailers in other parts of the country or even the world without being limited by geographic area. These stores offer a far greater selection of colors and sizes than one will find locally. Apart from that, many times it happened that one spend money on reaching a local shop only to find that the product that needed and sometimes it is out of stock. Some online shops have a provision to accept orders without stock and ship it across to individual when the stock becomes available. One also has the option of taking their business to another online store where the product is available.

3) Send Gifts

Online Shopping makes sending gifts to relatives and friends easy, no matter where ever they stay. Now there is no need of making distance an excuse for not sending a gift on occasions like Birthday, Wedding Anniversary, Marriage, Valentine's Day, Mother's Day etc.

4) Better Prices

Another thing which fascinates is the cheap deals and better prices that can be got from online stores because products come direct from the manufacturer or seller without involvement of middlemen. Many online shops offer discount coupons and rebates. For eg. jabong.com, snapdeal.com , amazon.in etc. Apart from this, the Online Store is only required to collect sales tax if they have a physical location in our state even if we buy from a store across the world.

5) Crowds

During online retailing crowd can be avoided. Especially during Festivals and Special events the crowds can really give a head ache. Crowds force to do a hurried shopping most of the time. Crowds also create a problem when it comes to finding a parking place nearby where the individual want to shop and going back to their vehicle later loaded with shopping bags.

6) Comparison of Prices

Online shops make comparison and research of products and prices possible. Online stores also give the ability to share information and reviews with other shoppers who have firsthand experience with a product or retailer.

7) Fewer Expenses

Many times when we opt for conventional shopping we tend to spend a lot more than the required shopping expenses on things like eating out, traveling, and impulsive shopping etc where in this case such expenses can be avoided.

8) Compulsive Shopping

Many times while Shopping the individual end up buying with the things which are not require because of the shop keepers up selling skills. Sometimes one even compromise on their choices because of the lack of choices in those shops.

9) Buying Old or unused Stuff at low prices

Online Shops make possible to buy old or unused stuff at rock bottom prices. If individual want to buy antiques there is no better options than online stores.

10) Discreet Purchases

Some things are better done in privacy. Online shops are also best for discreet purchases. There are some products which a person doesn't want to buy publicly that can be purchased from online web store anonymously to maintain desired privacy.

11) Flexibility

When a brick and mortar retail store wants to update its look, change its display shelves around or improve product placement throughout the store, it requires a considerable amount of effort and money. A brick and mortar store must be in a constant state of change to accommodate changes in the marketplace. An online retail shop can be changed simply and instantly to follow the latest buying trends, add the newest products or help update the store's corporate image through new logos or a new color scheme. Shelf space is also unlimited with an online retailer, where a brick and mortar store is limited by the amount of floor space it has.

12) Overhead

An online retail shop avoids having to pay overhead costs such as staff, storefront rent, warehousing space and utilities for a large retail space. An online retailer also has the opportunity to explore alternative streams of revenue to help offset overhead costs. For example, the online retailer can offer the space on the borders of its website to advertisers and use that advertising revenue to pay for the cost of maintaining and hosting the website. Due to their limited shelf space and wall space, brick and mortar stores don't have the same opportunity to lower overhead costs by offering advertising opportunities to other businesses.

13) Cost Control

As time goes by, the cost of operating a brick and mortar retail space tends to go up depending on the circumstances surrounding the store. For example, a retail store in a popular shopping mall may see its rent rise each year as the mall attracts more shoppers. When an online retailer purchases his website address, he need only pay renewal fees each year to maintain that address. As the online retail store grows in popularity, the cost to maintain the address remains the same.

4.5 Disadvantages of Online Retailing

Online shopping has become the need of the day. It saves your time spent on commuting to a local mall or market, gives you the best discounts and deals and even delivers your stuff at your doorstep. In short, it is the most hassle free mode of purchase these days. In fact, online shopping has almost discarded the traditional way of shopping. While this sounds amazing to the ears, online shopping isn't as good as it seems. It has its own share of cons which must be considered. Listed here are some disadvantages of online shopping.

1. Admin intensive

Running an online shop is hard work. Creating product listings are time consuming and maintaining the product catalogue is a never ending job. The recent VAT increase, for example, meant that retailers had to reprice all their products. In addition all sales should be packed and dispatched on a daily basis.

2. Customer service

There is no getting away from it, customers can be a pain. Being a retailer involves dealing with the general public and so it is important to be patient.

3. Can not really see/feel the items you purchase

No matters how enticing an outfit looks on a shopping portal, but there is no surity that person receive the exact same piece that is purchased online. Besides that, size, color and pattern may vary so that the chosen dress may not suit. This is the biggest disadvantage of online shopping. The person cannot feel or physically see the items that is purchase. As a result, there are high chances of getting a defective product.

4. Purchased item may be mishandled during shipping

Online shopping brings with itself a huge risk of purchased items being mishandled during shipping. If a product is damaged due to any reason the person

has two options either return to seller and bear the shipping charges or bear the loss of product mishandling.

5. Purchase of perishable items is not possible online

For perishable items like groceries, milk, fruits, vegetables and small things like staple pins and the likes, person has to go to the market for purchase. Such items can not be bought online.

6. Requires a lot of time on deal hunting

An individual can surely find some great deals when shopping online. But he has to spend a lot of time browsing the internet to find out the best deals. Only net savvy people have the time and interest to find out such lucrative deals. For the rest kind, online shopping is a time consuming job.

7. Delay

The main disadvantage of online shopping is that product is not receive immediately as it is purchased. Person has to wait until the product arrives. Sometime it is better to have an item instantly than keep waiting for it for many days.

8. Inferior product

Person does not know much about the actual quality of the product. Sometimes the description of the product might be different than the actual product. As a result an individual might end up with inferior quality product.

9. **Shipping Charge**

 Shipping charge and shipping delays are one of the main disadvantage of shopping online. Items are generally cheaper in online web store. But sometime the addition of shipping charge makes the price similar or more expensive than your nearby local store.

10.Scam

As online shopping is becoming very common the number of online scam and fraud is also increasing. This is why a buyer should always buy from trusted websites only because trusted websites would take care of any fraud to maintain their reputation.

11.Warranty issues

Many electronic items are sold without international warranty. So while buying such products individual has to make sure by contact with the seller to verify whether the item has international warranty or not.

12. Miscellaneous trouble

 There are some other rare disadvantages of online retailing such as credit card fraud , spyware etc.

4.6 Drivers of Online Retailing

A number of factors have been identified as drivers of growth in online sales. These include:

1.   A more computer literate population.

2. Long term trends towards higher educational attainment among consumers and increase in real household disposable income — survey results demonstrate that better educated and wealthier people are most likely to take advantage of the benefits that can be obtained from online shopping.

3. Innovations in online selling — such as group sales and special daily deals (Eg. Deal of the Day).

4. Consumer response to lower prices available online.

5. Convenience and availability of online shopping.

6. More secure payments systems which give greater confidence to consumers to purchase online.

7. Initiative shown by some web based companies that have invested in web interface technology and processes which facilitate online ordering, inventory stock take and delivery.

8. Emergence of m-commerce — the use of mobile devices to compare prices and features of products as well as make direct purchases.

9. Greater range of goods and services available online compared with bricks and mortar stores.

10. Increasing level of sophistication and comfort with technology and the internet amongst consumers across all age groups.

4.7 Challenges Before Online Retailing

Challenges faced by online retailing are as follows:

- Reluctance in changing the buying behavior - Indians are still reluctant to buy on-line and prefer brick and mortar models. Indians still like to have a feel of product and spend time in buying.

- Failure in luring customers from offline mode to on-line retail channel - Lack of awareness, proper marketing and advertisement, inability to create a brand image, lack of proper usage of all possible on-line means like search engines, paid marketing, on-line ads, social networking, blogs etc to reach the customers are few reasons for low growth of online retailing.

- On-line portals are not up to the mark - There have been few lacuna's in the exiting on-line websites like poor front ends, website search options are not good, insufficient information about products and terms and conditions, slow websites etc.
Lack of seriousness - All major retail distributors have come up with their retail portals but it seems to has been just a onetime setup for many retailers.

- Issues concerning security and transaction frauds - In addition many of the web portals don't support all on-line modes of payments. There is high occurrence of failed payments and this if often restricts the clients from revisiting the portal.

- Competitors - When consumers start searching, they have multiple options available, and many use search to navigate the Web rather than type in or bookmark specific sites.

- Visitors may switch in less than 15 seconds - Online consumers are impatient shoppers. If they immediately do not reach the site or the product they were looking for when they switch to other sites without wasting even 15 seconds.

- Online Window Shopping - Online surfing is a good pastime for those who love to browse. Many spend a fair bit of time visiting several sites just to gather information. They may also compare the offerings of several competitors before hitting the "buy now" button and quit without purchasing anything.

- Time between initial visit and purchase has increased - Increasingly financially challenged consumers may wait longer before buying.

- Customers postpone shopping for merchants' best offer - Consumers wait for a special deal or offers and postpone their shopping till an attractive offer is offered by online retailer.

4.8 Precautions for Online Shopping

With the boom in economy of India at an exponential rise, consumer spending has also increased. More and more consumers are looking for easy way to shop since their time is increasingly under pressure. E-commerce or online shopping provides a way out. With the universal availability of Internet connectivity, consumers save time and efforts by shopping online. More and more merchants are realising the enormous potential of the medium of Internet and are gearing up to offer products and services.

As the potential of online shopping is being grasped, the risks are going up too, particularly for consumers. Sadly, many online shoppers ignore the pitfalls and do not follow even minimum risk protection norms. Online shopping frauds are dangerous, because once the security is breached, fraudsters can siphon off a lot of money without the victim realising it.

Following are some of the measures one should take while doing online shopping or retailing:

1. Link of a Website

Going to an online shopping site through a link or pop-ups, howsoever interesting the offers are should be avoided. Always type the website address into the address bar. Tempting offers should be ignored as they may be from fraudsters who have created a fake site.

2. Look For The Image of a Lock at The Bottom Right Corner

To make sure the website is safe, the image of a closed lock in the browser window should be seen. The icon should be clicked to see if security certification is displayed. This proves that the site is not fake. One is vulnerable to 'identity theft' when the personal information is entering on a spoofed site.

3. Check Privacy Policy

It should be ensured that the seller of a website is reliable and the personal details given will not be shared with others for money. The Privacy Policy of the website must be checked to make sure what the seller will and will not do with details about the user.

4. Be Wary of e-mails

One may receive an e-mail that appears as if it is from the seller that he has shopped online. The shopper may be asked to disclose the personal information, bank details etc. to "verify" the accounts or "clear-up" errors that have occurred. Before responding, it should reconfirmed with the seller. Mail should be replied only if one is assured of its true existence.

5. Secured Programs

If the purchases are through a debit or credit card, then it should be made sure that one had sign-out for the "verified by VISA" and/or "Master secured code program(s)". Each transaction will then be authorised only by the user.

6.Anti-Spyware/Trojan Software

It should be made sure that the latest version of antivirus, anti-spyware or anti-Trojan programs are installed on the PC or laptop on which shopping is being undertaken and they are regularly updated.

4.9 Summary

To compete in today's high-pressure business scenario, sellers are looking at the internet as a very effective alternative sales channel, which gives them direct access to target customers. Online retailing can be extremely useful to consumer product and service enterprise especially in the area of: Apparel, Arts and Handicrafts, Books, Car rentals, Computers and Electronics, Cosmetics, Financial Services, Gifts and Novelties, Groceries, Music, Software, Stationary, Sweets and Confectionery, Tours and Travels, toys, services of all types. As online requires lower investment as compared to "brick-and-mortar" store", reduces transaction costs, reduces advertising and promotional costs, helps serve customer better by giving them greater choice and convenience of shopping, eliminates geographical boundaries for business, and can establish a global market for product or service. Security standards for online shopping are now well-established, so it can be safe to pay online using credit card. Credit card details and other information are encrypted and sent over a secure layer over the Internet. Although no system is completely fraud-proof, the large number of people going online bears testimony to the acceptance and safety of online shopping.

4.10 Self Assessment Questions

1   Explain the concept of Online Retailing.
2   Discuss the major advantages and disadvantages of Online Retailing.
3   Write a brief note on the evolution of Online Retailing.
4   What precautions one should take while doing Online Shopping?

4.11 Reference Books

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Unit 5 - Retail Market Strategy

Structure of Unit

5.0 Objectives

After Completion of this Unit, you would be able to:
- Understand the meaning of retail market strategy
- Know the process to develop the different type of strategies
- Understand the STP Approach in Retail
- Identify and evaluate better strategic planning

5.1   Introduction

In this era of globalization and increasing competition, retailers are showing keen interest in formulating well-designed strategic plans that could attract and retain customers by understanding and catering to their needs and changing interests. An effective strategy enables the retailer not only to stay in the market but also to grow and prosper.

5.2   Retail Market Strategy

A retail market strategy is a statement, which defines the orientation of the firm in terms of the target market that it wishes to cater to, the retail format that it proposes to build, and the retail mix variables that it chooses to gain decisive competitive advantage and sustain its position in the retail market. To formulate a good market strategy, the retailer should first decide upon its target market and its retail format.

Target Market and Retail Format

A retail strategy cannot be formulated in isolation or by considering the aspirations and resources of the organization alone. Customers and competitors are also considered. Retailers should not only satisfy the needs of the target market but also perform better than the competition. Target market is the market toward which the retailer plans to focus its resources and retail mix. The retail format and retail operations should be so chosen that the retailer is in a position to provide the retail mix that its target customers look for.

5.3 The STP Approach

The retail marketing mix is used to develop an appropriate marketing strategy for the store, depending on the target market to be serviced. Markets are large and varied and so are the needs of the customers. The marketing strategy evolved as a result of segmentation, targeting and positioning has come to be known as STP marketing and serves as the starting point for creating an effective retail strategy. India as a retail market, is complex and diverse in nature. The STP approach is largely relevant in such a market as no product or retailer can appeal to all segments. A retailer needs to keep in mind that he cannot be everything to everybody.

Segmentation

Segmentation is the breaking down of large markets into sub markets or segments of consumers that are similar in terms of needs, wants and buying habits. It divides the marketplace into parts, or segments, which are definable, accessible, actionable, and profitable and have a growth potential.

In other words, Segmentation is a process of defining and subdividing a large homogenous market into clearly identifiable segments having similar needs, wants, or demand characteristics. Its objective is to match the expectations of customers in the targeted segment. Few companies are big enough to supply the needs of an entire market; most breakdown the total demand into segments and choose those that the company is best equipped to handle. In other words, a company would find it impossible to target the entire market, because of time, cost and effort restrictions.

The four basic market segmentation-strategies are based on:

1. **Geographic Segmentation:** It is Separates a market into different geographical boundaries which can impact the retail marketing mix of product, price, promotion and channel to market.

2. **Demographic Segmentation:** It is separates a retail market by demographic indicators including gender, age, household type, education level and income. Simply put, the type of products we buy, how much we spend, and how we buy them are largely determined by demographic factors.

The following four variables are examples of demographic factors used in market segmentation:

• Age: In retail sector consumers needs and wants change with age. The retail marketing mix may therefore need to be adapted depending on which age segment or segments are being targeted.

• Gender: Dividing a retail market into different groups based on sex, has long been common for many products including cosmetics, clothing and magazines. In the 1960's car companies such as Toyota began to realize the purchasing power of women, creating marketing campaigns, and then cars, specifically targeted at the female market.

The range of interior and exterior colours' schemes in car and in retail stores, is due to in no little part to their desire to market cars to women, as well as men.

- Life-cycle stage: Dividing a retail market into different groups based on which stage in the life-cycle, reflects the fact that people change the goods and services they want and need over their lifetime.

3. **Psychographic Segmentation :** Segmentation may also be done on the basis of **psychographics and lifestyles.** By understanding the psychographics, a retailer tries to understand the activities, the interests and the opinions of the consumers as well as their values and beliefs. An insight into the activities and interests of the consumer gives an idea of the kind of lifestyle followed and the kind of products that would appeal to him. There are large target markets which fit psychographic segmentation, and are good market for outdoor recreation and fitness.

4. **Behavioural Segmentation** separates a retail market by shopping and buying behaviour of consumers. These are few questions which are important :

✓ Is the customer an online shopper or prefers to handle products in the store?

✓ How often does he shop?

✓ Does he consider the purpose of purchase carefully before making a decision, or he tends to buy on impulse?

All of the above factors determine how consumers are segmented and marketed to.

The following are commonly applied base for behavioural segments:

- **Occasions**: Groups individuals according to the occasions when consumers purchase, use or think of buying a product.

- **Benefits Sought**: Groups individuals according to the benefits they seek from the product.

- **Usage Rate**: Groups individuals according to the level of usage they make of the product, be it **Heavy**, **Medium** or **Light** usage.

- **User Status** : Groups individuals according to whether they are non-users, potential users, first-time users, regular users, or ex-users of a product

- **Loyalty Status**: Groups individuals according to their level of loyalty to the product. 'Hard core loyals' always purchase the product / brand in question. Whilst 'Soft core loyals' will sometimes purchase another brand, and 'Switchers' will not specifically seek out a particular brand, but rather purchase the brand available to them at time of need, or that which was on sale.

- **Buyer Readiness Stage**: Groups individuals according to their readiness to purchase the product. This segmentation model is particularly useful in formulating and monitoring the marketing communication strategies employed to move consumers towards purchase of a product or brand.

While determining a viable market segment, a retailer should also take into consideration the size of that market as it will help estimate the sales. Ideally, for a retailer, the criteria for describing segments should be relevant to a purchase situation. The main benefits of retail segmentation are that it helps the retailer focus on certain segments of the population, and gives it a direction for the strategy to be adopted. It aids the quantification of the size of the market and also helps monitor market performance by estimating the market share.

Therefore, while segmenting the markets, the retailer should also ensure that the market segments are:

Measurable*:* The segments should be identifiable and quantifiable.

Accessible*:* The marketing efforts should be directed towards the selected segment and the marketing efforts should have a positive impact and produce the desired outcome.

Economically Viable*:* The chosen market segment should be big enough to be economically viable for the retail firm to focus its marketing efforts on them.

Stable*:* The selected attributes of segmentation should be reliable indicators of market potential.

The Target Market

After having divided the market into various segments, the retailer now needs to decide whom he is going to cater to. The consumer segment that he decides to cater to is known as the *target market*. While selecting a target market, he needs to look at the ability of the retail organisation to meet the needs of the segment, the size and the future growth potential of the segment, the kind of investment that would be required and the kind of profits that could be earned. For example V-Mart targets the middle class residents whereas Shopper's Store aims at premium customer segments.

Thus, while developing the market strategy, depending on the products offered, the retailers can perceive customers in one of the following ways:

- **Similarity***:* The retailers perceive that the consumers are all similar and that a standard product will satisfy the needs of most of the customers. Though age, needs, income, preferences etc. differ among various customers, the basic premise is that these attributes do not influence the purchases they make. For example, all the convenience stores primarily focus on providing convenience to the customers by offering a good merchandise mix, wide variety and good assortments. They assume that all customers look for convenience while shopping. They do not look into the differences in thinking that may exist in a few customers, for whom convenience may not be the primary concern.

- **Differences-similarities***:* The market demand is influenced by the differences and similarities in consumer preferences. Customers are grouped on the basis of these differences (or similarities) and then the aggregate of these groupings is used as the base by the retailers to focus on their target customers. For instance, young fashion-conscious women in mid-income group could be segmented for an apparel retailer.

- **Uniqueness***:* Every customer is different from the other and this difference is what makes a customer unique as an individual. Hence a standard product cannot appeal to all the customers alike. However, customers with somewhat similar preferences can be included in one segment and retailers can make tailor-made offers for such groups.

Positioning

Now that the target market/s have been finalised, a positioning platform needs to be created. Market positioning of a retailer reflects the kind of image the retailer wants to establish among its target group and the group of retail firms..

In the words of Al Ries and Jack Trout, `Positioning starts with a product, a piece of merchandise, a service, a company, an institution or even a person. Positioning is not what is done to the product but what is done to the mind of the prospect. That is, you position the product in the mind of the prospect'.

The concept of Positioning needs to be looked at from the perspective of the environment that it operates in. It is how the product is perceived in the marketplace, relative to the competitor. In retail, the environment is constantly changing, thus the context of the positioning is bound to change. The overall strategy of the firm largely affects the positioning strategy adopted by the retailer. The four main areas that affect the retail positioning strategy are:

1.   Merchandising strategy
2.   The trading style/ format strategy
3.   Customer service strategy
4.   Customer communications strategy

Retailers have to understand the various factors that influence consumer buying behaviour. In order to correctly segment the population and thereafter, to create a marketing strategy, a retailer will have to take in data in various forms and types like demographic and psychographic data, data collected from a survey of household panels, instore audits and interviews done of customers buying from the store and alternately, not buying from the store. A retailer may also use data from syndicated studies like a study of the consumers, wardrobe, etc.

The significance of each type of data varies with respect to the target audience. For example, the marketing strategy adopted while communicating to teenagers will he different from that adopted while catering to the health conscious or may be the elderly. The positioning platform created by the retailer has to be done after taking all these factors into consideration.

Very often, a retail positioning map may be created to determine the positioning strategy, to be adopted by the firm. Two parameters, which the retailer thinks are necessary vis-a-vis the competition, are mapped and competing retailers can be plotted to determine where the retailer can actually fit in and optimise its strengths.

The key to successful retail positioning is that the store must have an identity that has some advantages over competitors, and at the same time, those advantages must be recognised and valued by the consumers.

Market positioning, based on price, product differentiation and service provision, is central to the competitive strategy of multiple retailers.' *Store image* studies have assisted retailers in developing positioning strategies for their outlets, enabling them to differentiate stores in terms of the products, prices or services they offer.

The segment, target market and the positioning strategy adopted by the retailer dictates the image to be created for a retail store. This in turn, decides the communication mix that the retailer chooses to communicate with the consumers.

5.4 Strategic Retail Planning Process

The success of a retail strategy depends as much on its actual implementation as it does on how well it is designed to meet the needs of the customers. In order to sustain and grow in the highly competitive market, retailers should keep their target market and plan their retailing strategies carefully. A detailed study of these stages has been provided below:

5.4.1 Developing the Mission

The mission of a retail firm reflects the basic purpose of its existence. A carefully developed mission statement includes such details as the products and services to be offered, scope of business, target customers, growth plans, the kind of customer service to be provided, and the

attributes for competitive advantage. There is often a more detailed mission statement provided to the employees of the retail firm than the one that is publicized outside the firm. The mission statement distinguishes the retail firm from others, reflects the values that the firm believes in and provides a sense of direction to the retail personnel. The mission statement reflects the philosophy of the top management and also guides the corporate culture. The stakeholders can gain an understanding of the firm's philosophy by looking at its mission statement.

For example, McDonald's mission statement, "Quality, Service, Convenience and Value", emphasizes on delivering value to its customers by providing quality service and convenience. McDonald's makes sure that every employee understands the spirit of the statement right from the day he/she joins the organization. The mission statement of a firm is the basic foundation of the whole planning process and hence, should be precise and reflective of the firm's attitudes and philosophy. Moreover, the plans in the subsequent planning stages should be consistent with the mission statement.

5.4.2 Establishing Objectives

After the basic purpose of existence of the retail firm is known, retailers decide the objectives of the firm. The objectives are the formal statements of what the firms seek to achieve in terms of sales volume, profitability, market share, quality levels, etc. Although profit is the prime objective for the existence of the firms, some firms incorporate social objectives as well. This helps them establish a good image in the community.

Objectives are set for the short-term as well as the long-term. Short-term objectives are generally set for short periods (one to two years) while the long - term objectives are set for longer periods of time. The long-term objectives are not as specific as the short-term ones, but they include the strategic dimensions of the retail firm. In retailing, the long-term objectives do not stretch beyond five years owing to the highly fluid market dynamics.

Objectives should be time-specific, measurable, attainable and indicative of the business priorities. If the objectives are specific and measurable, they motivate the employees to perform better. Similarly, objectives that are not attainable discourage/ frustrate the employees. However, objectives would not serve their purpose unless they are reviewed and evaluated periodically.

5.4.3 Situational Analysis

Before implementing a strategy, a retailer should have a clear understanding of the internal and external environments. So, the retailer should conduct a thorough analysis of the strengths and weaknesses of the firm and also assess the opportunities and threats in the environment. The assessment of the internal and external environments is known as 'situational analysis' or 'SWOT analysis'. It helps the firm make maximum use of the existing assets of the firm and take adequate measures to correct the weaknesses.

The supply of timely and accurate information has enabled the retail firms to take more efficient and appropriate decisions. The information about the external environment and the analysis of upcoming trends by experts round the globe are very useful for the retailer.

- **Strengths and Weaknesses**

Strengths and weaknesses are internal to the firm and can be largely controlled by the management. The financial resources, physical assets, management skills, sales force, merchandise, employees' attitude toward the company, etc. are examined to identify the strengths and weaknesses of the firm. While strengths can be optimally utilized to achieve the firm's objectives, strategies can be developed to overcome weaknesses by employing an external consultant with an expertise in weak area or by training the store personnel or by studying similar cases in other firms. The retailer can also make use of the information collected from

employee surveys, customer complaints, accounting reports, focus groups, customer surveys, supplier surveys, etc. to assess the strengths and weaknesses of the firm more thoroughly. It also offers a critical analysis of the various practices followed by the retailer like maintaining vendor relations, designing ad campaigns, kind of merchandise being offered and the HR practices being followed.

While assessing the strengths, the retailer pays maximum attention to the financial performance of the firm. The financial aspects of the firm like the costs incurred, profits, sales, assets, liabilities and net worth are regularly and completely monitored by the retail managers. Most firms limit their internal assessment to the analysis of the financial statements and reports and do not pay heed to other functional areas of marketing, purchasing & logistics, human resources. However, this should be avoided.

The major strength of retailers could be the *operational efficiency* it has achieved over time. Operational efficiency is the ability of the firm to cut costs as the volume increases. The efficiency achieved due to high volumes that a firm churns is referred to as 'scale economies. As the retailer gains experience in retailing, it becomes more efficient in all its operations - be it purchasing, handling or selling. Operational efficiency is certainly a factor that gives the retailer an advantage over its competitors due to the lower operating expenses it incurs. Such retailers

(like Wal-Mart) often pass on a part of these savings in operating expenses to their customers, thereby attracting more customers.

The *relationship with suppliers* is a factor that should be given due consideration while assessing the firm's strengths and weaknesses. Due to the improvements in

technology, suppliers today have greater access to information regarding the retailers. Hence, while assessing the strengths and weaknesses of the firm, their opinions should be given due consideration. Similarly, it is important to consider the customers' perceptions of the firm's strengths and weaknesses.

- **Opportunities and Threats**

Opportunities and threats are the factors external to the firm over which the retailer has little or no control. A firm is a part of a much bigger sphere i.e., the business environment, the social environment, the natural environment, economic environment and the political environment.

Hence, the firm needs to keep track of the external environmental constraints and responsibilities before taking any internal business decisions. The knowledge of existing rules and regulations and upcoming trends in the legal, economic, social, and technological areas can help the retailer determine favorable changes that could be grabbed as opportunities as well as unfavorable changes that could pose a threat and need to be kept under check.

Economic conditions

The economic situation prevailing in the country determines the purchases that consumers make and the amount of money they are ready to spend. In times of economic downturn, it becomes difficult for a retailer to register any year on year sales growth. In such times, rather than attempting to induce the customers to spend more, the retailers should make efforts to gain a larger share of the market using innovative strategies. It can also do so by venturing into new markets. Weak and uncompetitive retailers are pushed out of business when the economic conditions are challenging. When economic conditions leave little or no chance for sales growth, it is referred to as 'stagnant economy. However, some retailers not only manage to sustain their operations under economic pressure but also manage to grow. As customers tend to cut their purchases and the amounts spent during tough times, discount retailers take advantage of the situation and attract customers from specialty and high- priced retail stores, registering sales growth. Thus, even hard times provide opportunity for some retailers, though sometimes at the cost of other retailers.

Technological Developments

Technological innovations have had a tremendous impact on the way businesses are run. Tele marketing and e-marketing have made it possible for retailers to sell their merchandise to customers without even meeting them face to face. Technology has made transactions more simple and convenient. Credit cards have efficiently replaced cash transactions. Customers can transfer money from their account directly into the retailer's through 'Electronic Funds Transfer'.

Technology has enabled both vendors and retailers to keep a track of their own as well as each other's inventory levels and schedule the selling / manufacturing / distribution activities accordingly.

Competitive Environment

With globlisation there has been considerable increase in competition. The number of stores is constantly increasing. The retailers are trying to woo the customers by adopting different strategies. They have to keep a regular watch on competitive environment and competitive move.

How to trace competitors?

A retailer can conduct basic market research (i.e. track who its competitors are, what their strengths and weaknesses are, what kind of bargains they are offering to their customers, etc.) by employing any of the following methods;

- Listening to its current and potential customers, family and friends
- Taking vendors' opinions on the best retailers and best e-retailers for the same offerings as the retailer's.
- Attending trade shows and sessions organized by other retailers and e-retailers
- Keeping updated with regard to fast growing product categories, changes in Internet industry etc. through articles in trade publications, magazines and retail websites
- Learning the changing lifestyles of customers and changes in their spending of disposable income so that the retailer can stock merchandise according to their reallocation of expenditure
- Surfing the Net for global competitors and successful strategies (through search engines)
- Touring the newest malls and unique stores in trendy neighborhoods.

5.4.4 Identifying Strategic Alternatives

The result of situational analysis forms the basis on which the retailer evaluates the strategic alternatives. The for strategic alternatives are:

- **Market Penetration**

Market penetration helps a firm to compete in existing market segments with existing retail format with a strong market presence. The strategies adopted by the retailer helps it to concentrate on the existing market segment and increase its - number of customers, quantity purchased and purchase frequency.

Increasing the number of customers

An increase in number of customers results in more sales and increased profitability. It helps to increase market penetration and maintain market share, add more stores. The retailing mix variables that can be used to attract customers can be:

- Offering the merchandise at lowest price in the market area
- Offering wide variety of consumer goods from groceries to decorative items.
- Providing better services and facilities to customers like parking space, convenient shopping hours, wide variety and range, discounts, hassle free exchanges etc.

Increasing the Quantity Purchased

Retailers try to create a retail atmosphere that lures consumers to buy more. They spend substantial amounts to create such an atmosphere. This is generally done by improving the layout of the stores. Some retailers have set up fast food joints and coffee parlors to increase the

customers visiting the stores, thereby resulting in increased purchases. Another approach to increase the quantity purchased is to adopt cross selling. In cross selling, salespersons from one department try to sell complementary products from the same or other departments, thus increasing the overall purchases in the store. For example, a customer who purchases a lipstick can be persuaded to buy the matching lip-liner.

Increasing Purchase Frequency

Stocking a wide variety of merchandise in the stores all through the year creates an impression among the customers that they would easily get what they are looking for. For example, the wide variety of toys offered by Toys 'R' Us all through the year assures the customers that they would

have a good choice of toys even when they come to exchange the toys later. Toys 'R' Us registers round the year sales for video games and toys in the low to medium price range. Furthermore, high impulse buys like hobby kits and die-cast toys ensure high customer traffic at the stores.

The purchase frequency can also be increased by offering discounts on selected products at particular times. The discounts lure the customers to purchase the product that is presently being offered even if they did not intend to buy the product earlier. Retail food chains like Food World and Trinetra adopt this practice.

- **Market Development**

Market development is a bold strategic shift that involves more capital and is more risky than market penetration. Market development strategy can be executed by reaching new market segments or by expanding the existing markets.

Reaching new market segments

Retailers, especially food retailers try to tap new segments in existing markets by offering 'something more' to the existing merchandise/items. For instance, by adding low calorie, non-fried items to its menu, the food-chain retailer, McDonald's has attracted the nutrition conscious customers to its outlets. Coffee chains offering sandwiches and other food items, fast food restaurants adding soups and doughnuts to their menu are good examples of strategies retailers adopt to broaden the existing product lines and attract new customer segments.

Expanding Existing markets

Expanding markets based on geographic spread is a strategy that has been successfully adopted by retailers for a long time. It may involve addition of new stores in new cities or new areas in the city. A store concept that succeeded at one place is generally expected to work at other places. Such a strategy is most often followed by franchise retailers. Retailers even go in for cross-border expansion when their home market gets saturated. For example, the Spanish retailer Zara, which, a decade ago had its operations only in Spain and a few stores in Portugal, now has stores all over the world. Retailers can also go for market expansion by catering to new customer base.

- **Retail Format Development**

It refers to expanding the market through retail format development. For example, a retailer could expand by establishing an online store as an alternative retail format. Reliance Fresh and Reliance Super stores, both owned by Reliance.

- **Diversification**

A retailer can enter into new markets with an entirely new retail format. The diversified retailer serves new customer groups by offering products or services that are either related or it had never offered before. For instance Reliance Jewels from Reliance. ITC originally offers tobacco

Based products but it had diversified into apparel retailing (Wills Lifestyle).

- **Other Strategies**

Cost Reductions

When trying to achieve cost reductions, retailers try to implement self-service schemes so as to reduce the labour requirements. Some other ways for reducing costs are: reducing the store hours, making better use of the part-time helpers and cutting on customer services. The emergence of sophisticated technologies help retailers in cost reduction planning by providing information on individual contributions of each of the items in the merchandise towards the total profitability of the firm. The merchandise can thus, be planned according to the merchandise movements. This helps cut down inventory costs without compromising on the availability. Technological innovations also help cut costs. For example, using electronic data interchange with suppliers saves costs by eliminating the need for paper-based transactions.

Increasing the prices and margins

While formulating productivity-based strategies, retailers need to pay special attention to the aspects of prices and margins of the merchandise. The retailers cannot afford to raise the prices of all products it offers because doing so would compel the loyal customers to withdraw. But the retailer can select a few low-visibility items or items which are not purchased often and retain higher margins on those items. Or the retailer can simply add high-margin items to its merchandise like superstores do. Retailers can also charge certain sums for installations or deliveries on the basis of the total purchase amount.

Increasing merchandise turnover

Better merchandise mix results in increased merchandise turnover and increased turnover, in turn, results in improved productivity. The merchandise mix can best be improved by having access to real-time information from the point-of-sales terminals. The retailer, can thus ensure the right merchandise mix that not only helps in protecting its desired/established image but also improves the productivity through increased customer satisfaction. Some retailers encourage store managers to introduce certain items on a trial basis so that they gain an understanding of changing market demands. Another way to improve the merchandise mix is to broaden the mix. This is done by storing a broad variety of items in the merchandise.

5.4.5 Establish Specific Objectives and Allocate Resources

The specific objectives are goals against which progress towards overall objective can be measured. The specific objectives have three components :

- The performance sought, including a numerical index against which progress may be measured.
- A time frame in which the goal is to be achieved.
- The level of investment needed to achieve the objective.

5.4.6 Strategy Implementation

The efforts undertaken by the retailer in thinking, researching and planning can be futile if the strategy is not implemented properly. The implementation process involves developing action plans and assigning the ownership, establishing critical paths and linking the action plans to operating plans, developing a retail mix to implement strategy. The main objective of all these strategies is to create value for customers.

The practices of the firm should be customer-oriented. The merchandise sold should be attractive and advertising and promotions should appeal to them. Salespersons and other stores personnel should be knowledgeable and friendly.

After evaluating all the strategic alternatives, the retailer selects the one that promises maximum profit and offers the best scope for growth. Once this is done, the retailer would need to select the target market that it wants to cater to. The retailer should first segment the population and identify the target markets.

5.4.7 Evaluating Results and Controlling Operations

The effectiveness of a strategy can be known only by measuring the performance of the implemented strategy. Once the plan is implemented, it is essential to monitor the various activities to determine how effective the plan has been. If the objectives are not achieved as targeted, a re-analysis needs to be done either by revamping the strategy (if the problem is found to be with improper planning) or by re-implementing the plan (if the implementation was not carried out properly).Periodic evaluation of the strategies implemented will help the retailer in understanding their suitability in the changing market situations so that it can revamp its strategies at an early phase. The overall aspects of the plan i.e., the merchandising plan, financial plan, pricing plan, distribution and sales support plan, human resources plan should all be considered while evaluating the firm's strategy. The merchandising plan, financial plan, pricing plan, advertising and promotional plan, information systems plan, distribution plan, human resources plan should all be reviewed. Such an overall evaluation guarantees that the changes in individual plan that are made periodically do not disrupt the overall strategy of the retail firm. It also helps the retailer plan the individual variables in a way that would strengthen the overall competitive strategy.

5.5 Building Sustainable Competitive Advantage

The final element in a retail strategy is the retailer's approach to build a sustainable competitive advantage. After establishing the retail format and defining the target market, the retailer should formulate a retail strategy such that it helps to differentiate its store from its competitors. For example, the success of

Wal-Mart is attributed to its strong competitive strategy. The retail strategy is chiefly guided by the five dimensions of price, location, merchandise, service and communications. Customers form an image of the store on the basis of these core dimensions. The sources of competitive advantage can be summarized as follows:

5.6 Case Study

Wal-Mart's Competitive Strategy

Wal-Mart derives its competitive advantage from its geographic location, its inventory management strategy, its flexible pricing policy, its operations strategy, its hub and spoke distribution network, its vendor relations and its organizational culture.

Choice of Geographic Location: In rural areas and small towns, where there were no retailers, Wal-mart has the first mover advantage. As the sole discount retailer in those areas, it could attract customers by offering them the same or better prices than they could get at stores in nearby cities (which involved long drives).

Inventory Management Strategy: Wal-Mart has always been known for its new and cost effective methods of inventory management. The company does not have a common corporate policy on merchandising. Instead, it gives its local store managers the autonomy to choose products and allocate shelf space because they are the ones who are familiar with customer preferences and local needs.

Flexible Pricing Policy: The pricing of products is left to the store manager. Prices are thus set according to local demand and the number of competitors in a particular area. This local control maximizes sales and inventory turnover while minimizing expenses. This type of pricing policy gives Wal-Mart the flexibility to price competitively in areas where it is located close to competitors and price reasonably in areas where it is the only retailer operating.

Operations Strategy: Wal-Mart's operational strategy enables it to achieve maximum efficiency at lower costs. Because of its multiple distribution centers, its inventory occupied only 10% of total store space while that of its competitors occupied 25% of store space. This means increased store space for displaying more goods and, consequently more sales. Instead of individual product labeling, Wal-Mart practices shelf labeling, which minimizes the handling and reduces costs. The company invested early in automated technology like electronic scanning and satellite systems to achieve maximum efficiency while keeping prices lower than competitors'. Wal-Mart uses UPC scanners and hand-held bar code scanners to electronically track the items being sold and send information to the computerized inventory system.

5.7 Summary

The importance of formulating a retail 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. In this unit we had discussed how each of these factors affect the firm's image. To utilize the limited human, financial and physical resources optimally, retailers should have a well-planned strategy. Thus retailers should follow a systematic step-by-step planning process for formulating and implementing the strategy. All the efforts of retailers are directed at the customers. So they should take every care to ensure that the customer gets the right impression and image of the stores. Periodic reviews and evaluations will help the retailer to take corrective actions either by re-planning the strategy or by implementing it more effectively.

5.8 Self Assessment Questions

1.   Explain the strategic planning process in detail with suitablediagram?
2.   Explain the different strategies used by marketer?
3.   Discuss Retail STP approach in detail.
4.   Write a short note on building a sustainable competitive advantage.

5.9 Reference Books

- Retail Management by Swapna Pradhan
- Retail Management by Sujeet Nair
- http://www.managementfirst.com/articles/grocery.html

Unit - 6 Retail Marketing Mix

Structure of Unit

6.0 Objectives

After going through this unit you should be able to :
- understand what is retail marketing mix
- examine the role of marketing in retail
- know different marketing strategies

6.1   Introduction

Marketing today is not a function; it is a way of doing business. Increasingly in retail, it is not what you sell that counts, but how you sell it. Whether it is the paanwalla, the bania, the supermarket or the department store, the universal principles of marketing remain the same. Marketing today, has moved from merely selling of products and services to creating relationships with the customer.In this unit, we examine the elements of marketing for a retailer and the methods of communicating with the consumer. We first look at the components of the Retail Marketing Mix,. The various methods of communication with the consumer like advertising, sales promotion, publicity and personal selling are then considered.

6.2 Retail Image

Imagine a retail store where the doorman is unkempt, the salespersons lazy, the merchandise old and the floor untidy. Would one want to even visit such a store, leave alone buy something from there? Doubtful. These are precisely some of the components of a retail image. Retail Image deals not only with the interiors of the store, but also the exteriors and the consumers' shopping experiences at the store.

The Retail Image has to be created keeping the target audience in mind - the kind of environment that they would like to shop in and the services that they would expect. For example, the kind of ambience that would be there in a 'Watches from Switzerland' store would be different as compared to an HMT or even a Titan showroom. The Bata store has a different rook as compared to a Loft - the range of services offered is also different.

The factors affecting the image of a retail store can be classified as Primary and Complimentary factors. The Primary factors are:

- The product itself/the merchandise features
- The place where it is sold or the location of the store
- The pricing of the product
- The manner in which it is presented to the customers and,
- The advertising and promotion for the store

The product features or the merchandise itself is the chief factor which affects store image. For example, if the garments sold by an apparel store lose shape or run colour; it creates a bad image in the mind of the customer. The location of the store and the price of the merchandise sold also communicate the image of the store. For example, stores at Breach Candy or Nepeansea Road are considered upmarket as compared to those in the suburbs like in Kandivali or Borivali. Similarly, a store at South Extension would communicate a different image as compared to a store in Chandni Chowk or Karol Bagh. The manner in which the merchandise is displayed and presented is an integral part of communicating the image. The price of the product plays an important role in the image that is to be created. Expensive products are generally perceived to be good. Advertising also helps create an image. The shopping experience provided in the store, customer service, sales staff and the brand associations that the store makes also affect the store image. These are hence termed as complimentary factors.

6.3 Role of Marketing in Retail

In order to evaluate the role of marketing in the area of retail, let us first start with some of the commonly quoted definitions of the term 'marketing'. Philip Kotler defines marketing as a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of' value with others.

The **American Marketing Association** defines marketing as 'the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organisational goals'.

From these definitions one can draw the conclusion that marketing has to do with providing the right product to the consumer at the right place and time, which is largely what retailers believe that they are doing. Therefore, what is the role that marketing can play in a retail organisation?

The role of marketing in a retail organisation is two-fold. The first role that marketing can play for a retail organisation is that of' informing the consumer that he exists. The second role that marketing plays for the retailer is enabling it to get closer to the end consumer.

As the industry evolves and begins to focus on creating the experience for the end consumer, the elements of the marketing mix become increasingly important. Technology, aids the understanding of consumer needs and preferences and at the same time, serves as the silent salesman. P-O-P signage and in-store media educate and draw attention of consumers to a product's availability and attributes. Coming at a time when most consumers want more information, and when retailers have reduced staffing levels, retail marketing performs a vital service and augments cost-reduction efforts.

Retail Marketing is one of the few mass advertising medium that can convey the same overall strategic message in differing languages to varying audiences in the same village, city or region. Today's P-O-P displays are easily assembled, maintained and, at the same time, more powerful in entertaining and informing in the retail environment.

6.4 Retail Marketing Mix

The basic function of retail is to provide the right goods to the consumer, at the right place and time. However, in today's competitive world, how does a retailer inform the customers about the products that he has on offer. How does he lure them to visit and shop at his store? How does he achieve the sales targets? **The marketing tools that a retail organisation uses to pursue its marketing objectives are termed as the retail marketing mix.** Let us now understand the components of the Retail Marketing Mix. The components of the Retail Marketing Mix are illustrated in Figure .1.

Figure. 1 : Retail Marketing Mix

6.4.1 Product

One of the main elements of the retail marketing mix is the products and/or the services that the store offers the customer. Products are also termed as merchandise. The different products that the store offers is termed as the *merchandise mix*.

Types of Products in *Merchandise Mix*
- o Basic Products – low priced products staple or convenience goods consumed in a routine manner.
- o Speciality Products – unique products with brand identification involving purchase efforts by customers.
- o Shopping Products – less frequently purchased goods that can be compared for quality, suitability and personal selling.
- o Unsought Products – innovative products not much familiar and readily acceptable in the market.

65

- A *merchandise line* consists of a group of products that are closely related because they are intended for the same end use, are sold to the same customer group or fall within the same price range. For example, if we consider the menswear section at a department store, the merchandise line would comprise of party wear, formal wear, casual wear, accessories, under garments etc. specifying the each type of the merchandise line.

- The variety of the merchandise mix refers to the number of different lines that the retailer stocks in the store. Thus, the merchandise lines in a department store would be menswear, ladies wear, children's wear, home fashion, jewellery, etc. The same in case of a grocery retailer would comprise of cereals, pulses, personal care products, ready to serve foods, packaged foods like biscuits, snacks, etc.

- The *breadth*, also called assortment, refers to the number of merchandise brands in the merchandise line. If the merchandise line is menswear, an example of breadth of the formal wear shirts would be the number of brands of shirts that the store stocks.

- The *depth* of the merchandise refers to the average number of Stock Keeping Units within each brand of the merchandise line. Stock Keeping Units, or SKU's as they are commonly referred to, are the individual products that the store carries, defined by brand, size, colour, price, style and pattern. Let us understand this with the help of an example. Let us assume that the merchandise line under consideration is men's formal shirts. The department store under consideration, stocks three different brands of shirts-Arrow, Louis Philippe and Van Heusen. The store then needs to stock them in different sizes, colours, styles and price points. Let us assume that the store stocks them in four sizes, at five different price points, in five colours   and   in   two styles each. Their total would determine the total number of SKL s in that particular merchandise line. Thus. e.g., Depth of Product Mix - Shirts 3 brands - (Arrow, Louis Philippe, Van Heusen) = 3 SKU's X 4 sizes = 12) SKU's

> X 5 price points = 60 SKU's
>
> X 5 colors = 300 SKU's
>
> X 2 styles = 600 SKC s

Now we can imagine the magnitude of the SKU's that a large department store, or a large grocery store or hypermarket would handle. All this is done with the view of being able to provide the consumer with the right product at the right place.

6.4.2 Price

Pricing is an integral part of the retail marketing mix. The price policy that the organisation decides to follow depends on the customer profile that is the target audience for its range of products. It may also depend on whether the product offering is unique or has other substitutes available. For example, designer clothing is always expensive as compared to the pret lines offered.

Goods and services must be priced in a way that both achieve profitability for the retailer and satisfies customers. A pricing strategy must be consistent with the retailer's overall image (positioning), sales, profit and return on investment goals.

There are three basic pricing options for a retailer :

(1) A discount orientation uses low prices as the major competitive advantage. A low-price image, fewer shopping frills, and low per-unit profit margins mean a target market of price-oriented customers, low operating costs, and high inventory turnover. Off-price retailers and full-line discount stores are in this category.

(2) With an at-the-market orientation, the retailer has average prices. It offers solid service and a nice atmosphere to middle-class shoppers. Margins are moderate to good, and average to above-average quality products are stocked. This firm may find it hard to expand its price range, and it may be squeezed by retailers positioned as discounters or prestige stores. Traditional department stores and many drugstores are in this category.

(3) Through an upscale orientation, a prestigious image is the retailer's major competitive advantage. A smaller target market, higher expenses, and lower turnover mean customer loyalty, distinctive services and products, and high per-unit profit margins. Upscale department stores and specialty stores are in this category.

External Factors Affecting A Retail Price Strategy

The Consumer and Retail Pricing **:** Retailers should understand the price elasticity of demand-the sensitivity of customers to price changes in terms of the quantities they will but because there is often a relationship between price and consumer purchases and perceptions. If small percentage changes in price lead to substantial percentage changes in the number of units bought, demand is price elastic. This occurs when the urgency to purchase is low or there are acceptable substitutes. If large percentage changes in price lead to small percentage changes in the number of units bought, demand is price inelastic. Then purchase urgency is high or there are no acceptable substitutes (as takes place with brand or retailer loyalty). Unitary elasticity occurs when percentage changes in price are directly offset by percentage changes in quantity.
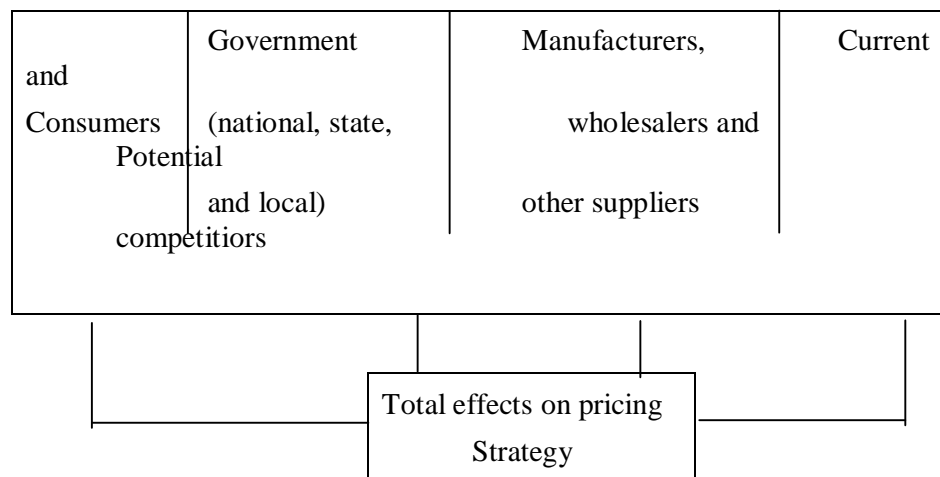
Consumers and	Government (national, state, and local)	Manufacturers, wholesalers and other suppliers	Current
Potential competitiors			
	Total effects on pricing Strategy		

Figure 2 : External Factors Affecting A Retail Price

67

Strategy : Price elasticity is computed by dividing the percentage change in the quantity demanded by the percentage change in the price charged. Because purchases generally decline as prices go up, elasticity tends to he a negative number:

$$\text{Elasticity} = \frac{\dfrac{\text{Quantity 1 - Quantity 2}}{\text{Quantity 1 + Quantity 2}}}{\dfrac{\text{Price 1 - Price 2}}{\text{Price 1 + Price 2}}}$$

Competition and Retail Pricing **:** Market pricing occurs when shoppers have a large choice of retailers. In this instance, retailers often price similarly to each other and have less control over price because consumers can easily shop around. Supermarkets, fast-food firms, and gas stations may use market pricing due to their competitive industries. Demand for specific retailers may be weak enough so that some customers would switch to a competitor if prices are raised much.

With administered pricing, firms seek to attract consumers on the basis of distinctive retailing mixes. This occurs when people consider image, assortment, service, and so forth to be important and they are willing to pay above-average prices to unique retailers. Upscale department stores, fashion apparel stores, and expensive restaurants are among those with unique offerings and solid control over their prices.

Most price-oriented strategies can be quickly copied. Thus, the reaction of competitors is predictable when the leading firm is successful. This means a price strategy should be viewed from both short-run and long-run perspectives. If competition becomes too intense, a price war may erupt whereby various firms continually lower prices below regular amounts and sometimes below their cost to lure consumers from competitors. Price wars are sometimes difficult to end and can lead to cost to lure consumers from competitors. Price wars are sometimes difficult to end and can lead to low profits, losses, or even bankruptcy for some competitors. This is especially so for Web retailers.

Developing a Retail Price Strategy

A retail price strategy has five steps : objectives, policy, strategy, implementation, and adjustments. Pricing policies must be integrated with the total retail mix, which occurs in the second step. The process can be complex due to the often erratic nature of demand, the number of items carried, and the impact of the external factors already noted.

Major Pricing Strategies are:

In **demand-oriented pricing,** a retailer sets prices based on consumer desires. It determines the range of prices acceptable to the target market. The top of this range is called the demand ceiling, the most people will pay for a good or service.

With **cost-oriented pricing,** a retailer sets a price floor, the minimum price acceptable to the firm so it can reach a specified profit goal. A retailer usually computes merchandise and operating costs and adds a profit margin to these figures.

For **competition-oriented pricing,** a retailer sets its prices in accordance with competitors prices.

Implementation of Price Strategy

Implementation a price strategy involves a variety of separate but interrelated specific decisions pricing strategy are listed below :

1.   Customary and Variable Pricing
2.   One-price Policy and Flexible Pricing
3.   Old Pricing
4.   Leader Pricing
5.   Multi-unit Pricing
6.   Price Lining

We will study the above strategies in detail in unit 'Merchandise Pricing'

6.4.3 Place

Retail location decision is very important in retailing business as the customer traffic is directly affected by retail location which consequently affects the volume of the business. This section has been discussed in detail in unit 'Location Planning'. For a very long time, the location of the retail store was considered to be the most important element of the retail marketing mix. However, with the advances in technology and the advent of television shopping and the Internet, many retailers are now going in for a click and mortar approach.

6.4.4 Promotion

Promotion is an integral part of the retailer's marketing strategy. Primarily, promotion is used to inform the customers about the retailer, the merchandise and the services. It also serves as a tool for building the store image. Retail promotion has moved on from the time when the retailer alone communicated with the consumers. Today, consumers can communicate or reach the organisations. Examples of this include toll free numbers, which retailers provide for customer complaints and queries. Another example is the section called 'Contact Us' on the websites of many companies.

It is believed that every brand contact delivers an impression that can strengthen or weaken the customers view of the company. The retailer can use various platforms/channels for promotion. The most common tools are :

- **Advertising : Advertising** can be defined as any paid form of non-personal presentation and communication through mass media. It. is popularly believed that one of the main aims of advertising is to sell to a wide mix of consumers and also to induce repeat purchases. However, a retailer may use advertising to achieve any of the following objectives:

  1. Creating awareness about a product or store.
  2. Communicate information in order to create a specific image in the customer's mind in terms of the store merchandise, price duality, benefits, etc.
  3. Create a desire to want a product.
  4. To communicate the store's policy on various issues.
  5. Help to identify the store with nationally advertised brands.
  6. Help in repositioning the store in the mind of the consumer.
  7. To increase sales of specific categories or to generate short term cash flow - by way of a sale, bargain days, midnight madness, etc.
  8. Help reinforce the retailer's corporate identity.

9. The retailer, for advertising, may use any one or a combination of the following mediums:

☐ Press advertisements

☐ Posters and leaflets, brochures, booklets

☐ Point of purchase displays

☐ Advertising can also be done through mediums like radio, television, outdoor hoardings and the Internet

Determining the Message and the Communication Platform

The advertising message is often a major factor affecting the success or failure of the advertising campaign. To start with, the retailer needs to determine what to say. This is largely dependent on the advertising objectives and the target consumer, but the appeal has to be finalised. At this point, the retailer needs to consider who the potential customers are; their demographic, economic and psychological characteristics, how many of such customers exist and who influences their purchasing decisions. the frequency, of their buying and the type of merchandise frequently purchased. After determining what to say, the retailer needs to determine how to communicate the message.

The main media used for advertising are: press, television, radio, cinema, posters, hoardings and direct mail. Advertising may also be done on bus shelters, buses, road dividers, kiosks. balloons, etc. The kind of media vehicle chosen by the retailer largely depends on the teach of that particular medium to the target audience. For example a Food Bazaar or Big Bazaar may advertise on a bus in a city, however, a store like Beautiful Boulevard may need to advertise in an upmarket magazine.

The changes in technology have also made an impact in the area of conmmunications. Internet has emerged as a legitimate option for the marketers. The web allows the marketers a new method of selecting precise markets, and to focus on specific interest areas, geographic regions, etc. It also allows users to track how users interact with the various brands/advertisements. On line advertising allows the marketer to advertise twenty-four a day, seven days a week, at the convenience of the consumer. As most retailers today, have a web presence, web advertising can be integrated with other forms of advertising.

Advertising on the Internet may be in the form of banner advertisements - where the advertisements are placed on sites that contain editorial material. It allows the browser to visit the website by merely clicking on the advertisement. A pop up advertisement may also be used. This is an advertisement that appears when a web page is being loaded or after it has been loaded. Lastly, communication on the Internet may be by way of an e-mail message sent to the receiver. Certain websites ask permission from the users to send e-mail updates on new items of interest. This is called permission marketing. After the advertisement has been created, the timing and scheduling has to be finalised and then the evaluation has to he done.

• **Sales Promotion :** A sales promotion can be defined as a paid non-personal form of communication that incentives customers to visit a store and/or purchase merchandise during a specific period of time. Sales promotion helps a retailer by way of attracting customer traffic and enables quick results to be

achieved. Depending on the type of promotion carried out, it can help increase impulse buying, generate excitement and can motivate other channel members.

However, it should be remembered that too many promotions might detract from a retailer's image and the customer may end up waiting for a promotion to make the purchases. A retailer may create sales promotions targeted at consumers or for other channel members.

Sales Promotions Aimed at Consumers

A retailer may create a sales promotion aimed at the consumer due to various reasons. Some of' these reasons are listed below:

- o To stimulate trial purchases: This is usually done when a firm wants to attract new customers. A reduced price or a rebate may induce trial purchases.

- o To encourage repeat purchases: In-package coupons valid for the next purchase are examples of promotions aimed at encouraging repeat purchases.

- o To encourage larger purchases: Price reductions, two for the price of one, a discount on the second purchase are examples of the same.

- o Introduce a new brand/product : A sales promotion may be done to attract attention to a new product,/brand or service that has been launched by the retailer and to induce trial purchase.

- o Counter competitor strategy: Through market intelligence, if the retailer becomes aware of a competitor launching a new product or brand, he may want to counter that launch by introducing a sales promotion.

- o For most retailers in India. the festival time of Durga Puja, Navratri and Diwali is a time to cash in and make the most of the consumers' favourable predisposition towards buying. With a booming economy, easy interest rates, easy monthly installments and booming credit cards, the demand for products across categories has seen a boom. Some of the popular promotions seen in many cities are:

- • Jewellery Retailers: Discount on Making charges, gift on purchases beyond a particular amount etc.

- • Hypermarkets: Products bundled together in an offer, Buy one get one free, etc.

- • Consumer Durable Retailers: Gifts on purchases, exclusive offers on certain products, facility for EMI etc.

- • Automobile Retailers: Gold coin on purchase of certain vehicles, in a particular stipulated time span, free insurance, 0% loanfacility for EMI, gifts on purchases etc.

Not to be outdone, shopping malls and multiplexes are also promoting themselves as the complete shopping offer. Many retailers create a retail calender that lists out the promotion/ event schedule for various months. This not only helps in planning, but also helps detail out responsibilities and expenses that are going to arise.

- **Public Relations and Publicity : Public Relations** is a marketing communications function, which aims at fostering goodwill. By way of public relations, the retail firm creates and sustain a favourable image with consumers, shareholders, suppliers and the public at large. Increase awareness about the retailer and its strategy, improve the retailer's image and project the retailer as a contributor to the quality of people's life. Show innovativeness, convey a favorable message in a credible manner, and minimize the promotional costs The job of public relations is usually handled by an outside Public Relations firm and may be created to promote goodwill for the organisation, to promote a particular product or service or to counteract negative publicity.

Advantages: It enhances the store image, establishes credibility through an objective source. It comes free of cost, targets and addresses mass audience, news coverage receivers more public attention than advertisements.

Disadvantages: Some retailers might not spend money on building up their image, less control over the message, its timing and its location, greater short term suitability, retailers might have to bear the costs of public relations staff.

An organisation may integrate the PR effort by way of press releases, feature stories and company newsletters or by interview with the press or press conferences.

Publicity is a non paid form of media coverage. It is an important component of public relations. In today's world, it is rarely free and a fair amount of skill has to be exercised by the organisation to ensure that the right media coverage is achieved. Examples of events in retail, which may merit publicity, are:

- Store Openings
- Store renovations
- Celebrity visits and affiliations
- Designer associations
- New product ranges and launches
- Awards received by the retailer
- Fashion shows and sponsored events

In order to gain positive publicity, considerable amount of effort has to be put into creating the press kit and holding the press conference. The event or the promotion or the features of the product have to be discussed with members of the press. The press may need a history of the organisation, which needs to he researched and well written. Considerable effort also needs to be put into arranging the photo sessions, which may be needed.

- **Personal Selling** : Personal selling is a paid form of personal advertising, where salespeople assist customers in satisfying their needs through a person-to-person exchange of information. It is a process of learning the needs and wants of the buyer and of striving to satisfy them with the required product or service. Personal selling may occur within the environs of the retail store - where personal selling deals with the sales person satisfying the needs of the consumers. It may also occur outside the retail store-where orders are taken from customers by way of the telephone, Internet or mail and that are then serviced.

The other tools of communication are aimed at markets or segments of the target audience. Personal selling is precise. It is aimed at a specific individual/s. Developing a strong sales force is hence an expensive proposition, as the sales person has to be trained on various aspects of communication and understanding the body language of the customer. He also needs to be knowledgeable about the features of the products and services offered by the retailer.

- **Point of Purchase (POP) Displays** : The dictionary of retailing defines Point-of-Purchase communication as the promotional signs and interior displays, often located at the point of sale or alongside displays of merchandise. Point-of-purchase (POP) displays have become integral to retail today. They help reinforce in-store/ product branding, enhance retail sales floor communication and provide information to the customer.

The basic function of POP in a retail store is to induce sales. It works with advertising and sales promotions to reinforce the messages being communicated. The communication materials for this purpose in a retail store include posters, danglers, flyers, glow signs, translites, banner's, etc. A research done by the Point-of-Purchase Advertising Institute (PUPAI), revealed that '70 per cent of all purchasing decisions are made in-store'. In case of mass merchandisers, 74 per cent of brand decisions are made in store. At supermarkets, 70 per cent of brand decisions are made in-store. This is evidence of the importance of POP. While these figures are a reflection of the American market, with the rise of self service formats in India, the importance of POP is bound to increase.

The role of POP changes significantly with the type of product being sold and the customer's involvement in the purchase. Different types of POP materials would be relevant in different types of stores and environments. For example, the kind of POP material that would be used in the women's wear section of a department store would probably emphasise the style, fashion, quality and the price. Sometimes, special offers that may be on in the store may also be emphasised.

On the other hand, in case of a supermarket, POP may be used to indicate prices, the location of products and any special or bargain offers that may be on offer in the store. POP in a store selling consumer durables and electronics may lay stress on the features of the product, the warranties and guarantees and the after sales service provided by the outlet.

The advertising budget, the sales promotions, publicity and public relations play a very important role in the competitive world of retailing. Retailers need to develop a communication strategy in line with their target market and the products that they stock in store.

6.4.5 Presentation

The manner in which the merchandise is presented at the store level is very important. This aspect not only deals with the store layout and ambience created, but also with visual merchandising. Visual Merchandising is the orderly, systematic and intelligent way of putting stock on display in the retail store. Many large retail organisations employ visual merchandisers to aid the store in this function. Visual merchandising has been discussed in detail in forthcoming units.

6.4.6 Customer Service

The support services that a retailer has have become very important today. The credit policies, product returns policies, etc. need to be clear not only to the sales staff but also to the end customer. Relationship marketing, data warehousing and Customer Relations Management are the new buzzwords in the industry today and all these are aimed at enhancing customer service. This will be discussed later.

6.4.7 People

Retailers operate in a unique environment. The retail industry is characterised by a large number of inexperienced workers, who need to put in long hours of work. Most of the time, these employees are in direct contact with the customer and may face irate or unreasonable customers. The people who work at the front end of a retail organisation are very important, as they are the face of the organisation for the customers. Their attitude, behaviour, manners and product knowledge play a very important role in building long-term relations with the customers.

6.5 Summary

The components of retail marketing mix are product price place, presentation, people and customer service. The retail marketing mix is used to develop appropriate marketing strategy for the store, depending on the target market to be serviced. Markets are large and varied and so are the needs of the customers. This in turn enhances the significance of marketing mix.

6.6   Self Assessment Questions

1.   Explain the components of the Retail Marketing Mix.
2.   How would the promotion mix vary for a supermarket and for a department store?

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Unit 7 - Retail Advertising

Structure of Unit

7.0 Objectives

After completing this unit, you would be able to:
* Understand the role of advertising in retailing
* Classify various types of advertising media in retail
* Point out the objectives of Advertising
* Study about steps involved in designing retail advertising mix strategy.
* Gain better insights about the promotional mix elements of retailers.
* Identify the major participants involved in retail advertising
* Learn about the various promotional mix strategies used by retailers'.

7.1 Introduction

In the retail industry, advertising has become a very essential tool. Advertising allows manufacturers and distributors to get closer to customers. If a retailer wants to increase store sales, he needs to create awareness amongst customers who buys these products first. Otherwise, they won't know that such a product even exists or where to purchase it. So retailers must supply ample information that will be used by customers to augment the merchandise and make the promotions a better one. Another great way of boosting sales and returns is through carrying out in-store promotions. Many retailers' today have been utilizing these promotion techniques in order to make it easier for them to attract, draw in, and compel more people to buy. Because of these promotions, shoppers who had no intention of buying a product may be more convinced to do so. The growth of private labels made retailers tend to come up with necessary brands, trademarks, logos, etc, as ways of making sure that the products they are selling have their own unique flare and identification against other similar products in the market. So a good advertising strategy is necessary for success of the retail firm. It is not only important to advertise but also adequate research should be done to ensure that advertising efforts are directed towards reaching their intended buyers and spent wisely in the right places.

7.2 Objectives of Advertising in Retailing

Advertising is a strong medium which influences the buying decision of the customer and prompts him to shop. The retailer must ensure to communicate the USPs of his brand to the target customers well through various modes of advertising. The advertisement must be eye-catching for the end-users to click on them. **Retail advertising** is advertising that is aimed at creating awareness of different retail products and directly targets the consumers. Its main aim is to help the retailer effectively reach their existing customer and also attract new ones.

Advertising is a paid communication in which the message is controlled by the sponsor, and is designed to gain attention and motivate action. Advertising is generally used as a type of sales pitch for products or services in the retail and private sectors, but it is also employed by non-profit and government organizations to raise awareness, gain support, and issue a specific call to action. "Advertising is the paid dissemination of information for the purpose of selling or helping to sell commodities and services or of gaining acceptance of ideas that may cause people to think or act in a desired manner." "Advertising is a paid form of non-personal presentation of ideas, goods or services by identified sponsor" **American Marketing Association.**

Objectives of Advertising:

1. Increase sales volume
2. To remind customers
3. Increasing customer traffic in the store
4. To enhance the goodwill of the retailers' by promising better quality products and services.
5. To inform customers about the store like store timings, products sold, merchandise offered, availability of brands, offers, prices and services etc.
6. Develop unique image of the retail firm.
7. Position the store in the minds of customers
8. To communicate store policies.
9. Easing the job for sales personnel
10. Enhance customer loyalty
11. Developing demand for private brands
12. Help retailers to reinforce corporate identity
13. To promote store brands
14. To aid retailers in market expansion; entering new markets, serving new customers etc.
15. To warn the public against imitation of an enterprise's products.

7.3 Significance of Advertising in Retailing

Advertising is the tool in promotion mix, which is used to raise awareness of the value of product in the minds of target audience and convince them of the ability of the product to satisfy their needs or want. In the modern age of mass production, producers cannot think of pushing sale of their products without advertising them. Advertisement supplements personal selling to a great extent. Advertising has acquired great importance in the modern retailing where tough competition in the market and fast changes in technology, we find fashion and taste in the customers. This makes advertising as a key in retailing because

without advertising the role of promoting value of the product, thus raising awareness to the target audience will not be met. The role and significance of advertising can be categorized in four major areas:

1. **Advertising and Retailers':** Advertising aids retailers' in :

a. Increasing the store traffic

b. Promoting brand and creating its awareness amongst the masses.

c. Promoting the private labels: Retailers' apart from selling the manufacturer brands also sell their own labeled goods which are known as private labels or retailer brands. Example: Shoppers' stop, Pantaloons etc. So retailers use advertising to promote sale of their stock of private labels.

d. Advertisements help retailers to stock the product, on the expectation that it would ensure consumer response and hence sale.

e. Helps retailers in finding new customers

f. Aids in market expansion.

g. Advertisements also inform the consumers of retail outlets in their localities. It also informs customers about retail store timings and holiday schedule. Advertising on a regular basis makes the retail store a destination point for customers.

h. To clear the stock of the retailers, such as promoting products which are seasonal, special offers could be made. Example: Back to school offers, Mothers' day, Festival offers etc.

i. Increasing the sale volume

j. Provides ROI (Return on investment)

k. Controls product price

l. It also helps retailers in recruiting staff or trying to secure export orders or announcing trading results to build confidence among shareholders

m. Maintains existing customer base and market.

2. **Advertising and Sales Personnel:**

a. Advertising help the sales force backed by advertising support so that it eases the sales force in approaching consumers.

b. It lightens the burden of salesman by providing basic information of the store, product and usability.

3. **Advertising and customers:**

a. Advertisements provide information to the consumers of retail outlets in their localities. It also informs customers about various products or merchandise offered brands, prices, quality, retail store timings, services offered and holiday schedule.

b. Retailers use various taglines to create awareness of a product or service in the most effective way. The moment customer hears "**Just Do it",** he knows he has to visit a "**Nike Store**". **Example**: Wal-Mart uses 'Everyday low prices' to position its store. That's the importance of a tagline.

c. It reduces consumers time cost in getting information about the stores

77

d. It reduces consumers energy cost and psychic cost in choosing amongst various alternatives.

e. It reminds and persuades customer.

f. It provides information relating to the functionality and usability of the products and services.

g. It creates awareness about introduction of new products or services.

4. **Advertising and Society:** Advertising is a pervasive method and integral part of society. Without advertising modern society cannot survive. .Advertising is useful to society in following ways.

a. Persuades customers' in purchasing goods/products and services

b. Reflect cultural trends

c. Advertising bridges the gap among people by communicating varied culture through advertising message. It bring variation in the social life

d. Promotes Economic growth

e. Improves standard of living

f. Provides employment

g. Regulates the price.

7.4 Major Participants in Retail Advertising

Participants in advertising are the group of people who are directly or indirectly involved in retail advertising.

1. **Advertiser**: Retailers are the prominent segment among advertisers. They stock the products and sell them to the ultimate consumers. Government and social organization are also the active participant in this category.

2. **Target audience**: It refers to the target audience on whom the advertising is intended for.

Advertising message intends to cover the potential user and non user and also the users of competitors' product who may purchase the product in future.

3. **Advertising Agencies:** Retailer has two options:

- To design, develop and produce and advertising message and get it placed in desired media directly through his own advertising department
- To outsource the services from specialized ad-agencies.

4. **Advertising Production People (Artists)**: The creative team of professionals like copywriters, artists, photographers, typographers, layout designers, editors and such other creative people responsible for production of impressive and persuasive advertisements

5. **Target Audience**: Advertising messages are intended to inform about products, services and ideas to readers, listeners, viewers and actual and potential buyers, who are known as the audience. The target audience may be the existing or, current consumers, consumers who buy and use a competitors' brand; hence they are persuaded to buy the advertised brand, instead of the competitors' brand;

and those consumers, who do not use any such product; and even then, are persuaded to buy the advertised product.

6. **Media**: Advertising messages are communicated to the target audience through different media such as:

- Print Media: They consist of newspapers, magazines, journals, handbills, etc.
- Electronic Media: They consist of radio, television motion pictures, video, multi -media and the internet.
- Outdoor media: They consist of posters, hoarding, handbills, stickers air balloons, neon sign bill boards, local cinema houses, and transit media.
- Direct mail: It consists of broachers, leaflets, pamphlets, letters and return cards addressed to consumers.

7. **Government Authorities**: The advertising is regulated by the government department. The government frames laws and regulation which have a direct or an indirect bearing on the advertising. Apart from this **ASCI** (Advertising standards council of India) and **ABC** (Audit Bureau of Circulation) are also some of authorities regulating advertising.

8. **Advertising Production Firms:** Advertising production firms are the support agencies which help in the production of advertisement.

7.5 Designing Retail Advertising Mix Strategy

The various stages involved in designing the Retail advertising mix strategy are:

1. **Determine the overall goals and objectives of retailers' and advertising programs**: The first step is setting the advertising objectives. There may be different advertising objectives short term or long term. They may be like increasing sales, increasing market share, brand image, good will, providing information on merchandise category, price/quality, specific attributes & benefits relating to the product and expansion of business. Thus the retailer has to evaluate all this objectives and select the one which he intends to achieve.

2. **Defining the Target Audience:** The next step in designing the retail advertising mix is determining the target audience. It involves in identifying:

   - What are the relevant target buyer groups?
   - What are the target group's demographic, lifestyle and psychographic profile?
   - How is the trade involved?

3. **Determining the advertising budget:** This is one of the most important decisions of retail advertising mix strategy. The effective advertising mix strategy depends upon the budget set. The retailer prepares the budget taking into nature of the customers, objectives, nature of competitions and also availability of funds. While there is no definite formula for determining the advertising or the overall promotion budget, the following

are the main methods that may be employed to determine the advertising budget:

a. The Percentage of Sales Method :This is perhaps the most commonly used method for determining the budget. Here, the budget is a fixed percentage of sales. The biggest advantage of this method is that it is simple to apply and it allows the retailer to set an affordable limit on promotional activity. This method, however, takes little consideration of the market conditions or any special advertising needs.

b. The Competitive Parity Method : Here, the budget is based on the estimated amount spent by the competition. There is a risk that it could he based on wrong information and again, there is little consideration for market conditions or growth opportunities.

c. The Research Approach or the Task and Objective Method : The budget is determined on the basis of a study of Lite best forms of advertising media and the costs of each. The retailer formulates advertising goals and then defines the tasks necessary to accomplish these goals. Next, the management determines the cost for each task and adds up the total to arrive at the required budget. Here, the advertising expenses are linked to the retailer's objectives and the effectiveness of some forms of advertising can be measured and compared to costs.

d. The Incremental Method : The budget is simply based on the previous expenditure.

e. What can be afforded : The budget allocated for advertising or for promotions is based on the basis of the money that can be allocated by the retailer for this purpose.

While determining which method is to be adopted, a retailer needs to take into consideration the market that the firm is operating in, its current market position and how important advertising is in that market.

4. **Develop a copy and media strategy to reach these targets:** It involves developing advertising message which is called copy of the Ad An effective message should get attention, hold interest, arouse desire, & obtain action (AIDA model). In integrating the message together, the retailer must decide what to say & how to say it. , who should say it. Thus the retailer should focus more on message content, message format and message structure. Secondly the retailer must select the channels and media to reach the target audience. There are two broad types of channels - Personal and Non personal.

   a. **Personal Communication Channels**: In personal Communication channels, two or more people communicate directly with each other. They might communicate face-to-face, over the telephone, through the mail or even through an internet chat. Personal Communication channels are effective because they are allowed for personal addressing the feedback.

   b. **Non Personal Communication Channels**: Non personal communication channels include media like:

   - Print media -newspapers, magazines, direct mail etc.

- Broadcast media-radio, television etc.
- Electronic media-audiotapes, videotapes, CD-ROM, web page etc.
- Display media-billboards, signs, posters, banners and hoardings.

5. **Select Media:** The next step is to finally select appropriate media to reach the target audience. The selection of media depends on the nature of the product, type of audience, budget available and coverage.

6. **Develop an Ad:** Based on the type of audience, nature of product, budget available, coverage and media the ad is developed.

7. **Implementation of the Ad:** It involves in
   - Preparing action plans
   - Allocating responsibilities
   - Scheduling of activities
   - Arranging resources
   - Implementing tasks and activities
   - Monitoring implementation plans
   - Keeping records of implementation

8. **Evaluating the impact of Advertising:** Retailers' assess the overall effectiveness of advertising in attaining the intended objectives like:

- Increase in sales revenues
- Rise in customer purchase frequency, visit and revisits to the store
- Rise in number of footfalls
- Decrease in customer complaints
- New franchise offers
- Increase in market share
- Rise in footfall conversion into sales
- Increase in number enquiries about the products/services
- Orders from other markets

9. **Revise the advertising plans for new themes:** The current evaluation of advertising effectiveness helps in devising new themes or serves as a basis for designing future advertising strategy.

7.6 Classification of Retail Advertising

Like trends in fashion, what's old is new again in the world of retail marketing. Overall ad spending is up, particularly TV and digital. Department store ad spending is on the rise. Couponing is growing. Customer service and engagement is more important than ever. Due to this retailers are using in-store promotions rapidly to deliver customer experience within the store rather than a store just to transact. Advertising on social networking sites and mobile advertising are the emerging media in modern retailing. The various types of retail advertising are:

1. **Based on geographical locations:**
   a. **National Advertising:**
      It refers to advertising on a national scale, where the manufacturer stimulates the demand of the product he is offering to the ultimate customers.
   b. **Local and Regional Advertising:**
      This advertisement is confined to one specific region of any country. This is done when a retail chain is confined to local or regional level.

Local advertising is done through daily newspapers, radio and siti cable etc. The product which is available to the local consumers is advertised through local advertisement. Example: *Rajasthali* retail store situated at Jaipur advertises only in advertising media confined to jaipur.

  c. **Global Advertising:** This advertising is aimed to suit global environment. **Examples:** *United Colors of Benetton* adverises similar commercial worldwide **Parker pen** also used the same slogan for advertising globally. "There is a time when it has to be a Parker".

2. **Based on Target audience:**
   a. **Customer oriented or persuasive advertising**: Retailers' use this type of advertising to inform the customers about their new products or services, usage of products informing about their events, contests and offers etc. Examples: ITC and Wills Lifestyle use this type advertising.
   b. **Trade and Professional Advertising**: This type of advertising specifically focuses on the professional people, retailers and the whole sellers. Example of trade advertising would be a **Coca-Cola advertisement** placed in a <u>trade magazine</u>, such as **Progressive Grocer**, in order to promote Coca-Cola to food store managers. The primary objective of trade advertising is to promote greater distribution of the advertised product. This type of advertising is done in order to persuade them to stock its products and to feature them in their respective stores, and run a national advertising campaign for their retail advertisement.
   c. **Institutional or Corporate advertising**: In this type of advertising the retailers highlights its achievements and objectives. **Example**: HDFC bank had tied up with Business Today to sponsor magazines in each metro amongst top corporate and high net-worth customers' of the bank. Sahara by saluting Indian cricket captains is associating with cricket.
   d. **Industrial advertising:** Advertising in this case, can provide the engineer or buyers with the opportunity to express interest in the product by returning a card which is request for additional information.
3. **Other Forms**:
   a. **Financial advertising:** It refers to the advertisements by various financial institutions like Union bank of India, Standard Chartered bank and ICICI, etc. These types of Ads are focused on providing information relating to the investment options, risks and benefits related to them.
   b. **Image advertising:** The image advertising is undertaken by an organization in order to enhance its importance and value e.g. if the context "what we do" is addressed, then an image is used to nurture the pertinent purpose which enhances the life of a specific brand or product. *Example* Tata, ITC

c. **Classified advertising:** These type of Ads are placed in news papers, magazines etc under classifieds columns like 'Furniture for sale', 'Situations vacant' etc.

d. **Cooperative advertising:** This is of two types namely:

- ✓ **Vertical cooperative advertising**: This type of advertising is usually advertised by retailers' and other channel members. Example: Cadbury India Ltd has promoted using this type of advertising at retailers' end.
  Example: Wal-Mart and Best Buy.

- ✓ **Horizontal cooperative advertising**: Retailers' come together to share the cost of advertising leading to joint promotion of events. Businesses that serve senior citizens may purchase ad space in a retirement magazine, while health-food stores, farmers' markets and vitamin retailers may combine to advertise in the weekly newspaper.

7.7 Types of Retail Advertising Media

The success of retail advertising lies in selection of appropriate media for communication. Today's customers' are exposed to wide media, cultures & formats and try to access the information through multiple sources. So the biggest challenge for retailers' to explore and integrate and select the most cost-effective media in reaching target audience. The various types of media used in retail are:

1. **Print media** is also one of the most effective ways to promote a brand. Newspapers, magazines (Business World, A & M, Femina etc), catalogues, journals make the brand popular amongst the individuals. Retailers can buy a small space in any of the leading newspapers or magazines; give their ads for the individuals to read and get influenced. Local weekly newspapers, regional newspapers including numerous free newspapers like Hindustan times, Deccan herald, The Times of India and The Indian express etc.

   A retailer may also use an advertorial. An advertorial is it special advertising section designed to look like the print section in which it appears. They are so named because they have the look of the editorial content of a magazine or newspaper, but. really represent a long and involved advertisement for the brand.

2. **Television** also helps the brand reach a wider audience. Retailers also use celebrities to endorse their brands for that extra punch. Celebrities are shown recommending the particular brand and thus making it a hit amongst the masses.

   Example: The famous Indian cricketers have endorsed Sahara Q Shop. Viewers get influenced to shop from so advertised retail shop because their favourite cricketers have endorsed it that adds to the retail image. Other examples are Bipasha Basu for FBB (Big Bazaar).

3. **Radio:** Radio helps in reaching masses and help in creating brand awareness for the retail chain or store. **Example:** Radio 98.3, FM,Vividh Bharti.

4. **Out of home media:** It is also known as *OOH* media. Research reveals that the consumers are keen to watch ads while they wait in queues outside elevators, at shopping malls, railway stations, crowded areas, heavy traffic crossings, bus stands, near cinema halls and multiplexes. In fact, they are most amenable to advertisement during these short moments. Out-of Home Media cashes upon the opportunity to display advertisements that affect, engage and induce action of not only prominent customers, but also choice makers, wealth creators and high net worth individuals through the multi- platform and strong audio-visual network. Promoting a brand through OOH media include signboards, billboards, hoardings, posters, neon signs, balloons, mobile van with signages/road show, lit signages and posters in mall, Buses (Volvo bus), auto rickshaws and banners intelligently placed at strategic locations.

5. **Direct mails:** Direct mail to regular customers. Retailers' acquire customer list through feedback on products & service and credit card customers' as mailing list.

6. **Yellow pages:** Customers who are definitely interested in making a purchase and seeking information use yellow pages as a reference. Yellow pages are very useful media for retail promotion because they have long life. **Example**: Tata Press yellow pages.

7. **Social Media:** Social networking sites have also emerged as one of the easiest and economical ways to promote a product or brand. The various sources of promoting in social media are:

   a. **Facebook**- Retailers sign their business up with an account and keep it updated regularly. It's free and it is almost necessary these days. The retailers make page informative and advertise offers, special rewards, contests, and/or coupons.
   b. **Twitter**- Special events, exceptional offers, and exciting news can be delivered to the customers to "tweet" their great deals.
   c. **Website-** The retailers' make an inventive, easy to maneuver and informative website.
   d. **Blogs** – Retailers' create blogs since there are no limits when it comes to blogging. Retailers' blog about various aspects like – personal, business, politics and fun stuff

8. **Mobile Advertising:** The mobile marketing penetration amongst customers' presents retailers with several problems in handling innovative type of advertising. This includes the proper timing to send SMS for instance. The retailer needs to know when the users are most susceptible to advertising messages and when the conversion rate is therefore very high.

7.8 Other Retail Promotional Strategies

There are two broad categories in retail promotional mix. They are: Paid and Unpaid. Under each category they are further divided on the basis of Personal and Impersonal. The detailed summary of retail promotional tools is depicted in Figure 1.

Impersonal	**Personal**
• Sales Promotions • Advertising • Store Atmosphere • Websites	• Personal selling • E-mail
• Publicity	• Word of mouth

Paid   **Unpaid**

Figure .1:   Retail Promotional Tools

I. **PAID IMPERSONAL PROMOTIONAL MIX TOOLS:**

- **Sales Promotion:** This is a paid and Impersonal form of communication. Sales promotion refers to communication strategies designed to act as direct inducements, an added value or incentive for product to customers. The objectives of sales promotion are stop and shop, shop and buy, buy bigger and repeat purchase.

a. Private Label: Private label is an effective way to promote one's brand at low costs. Products manufactured by one company but sold under another company's brand name are called Private Label Products. Retailers' print their own calendars, diaries, planners, table tops with your store's name, address as well as logo. Such an activity creates awareness among individuals.

b. In-store Sales Promotions: Retailers use mainly in-store sales promotions for inducing the customers' to purchase more. The key in-store promotional activities include:

1. Point-of-Purchase - Displays on the floor, counters and windows remind the customers about products and stimulate their buying impulse. Sometimes displays are provided by the manufacturers

2.Contests - Customers compete for prizes by writing slogans.

3. Sweepstakes - The participants fill an application form and a winner is chosen randomly.

4. Coupons - Coupons may be delivered through newspapers, magazines, post. or in/with products purchased. An example of' this is Domino's Pizza, which regularly sends coupons to customers through newspapers. These coupons offer a certain amount of discount on placing an order during a specified time frame.

4. Frequent shopper/ Frequent flyer programs - Retailers offer points or discounts to Customers depending on the amount for which they have bought goods. The customers even exchange points with goods or services.

5. Prizes - Unlike the frequent shopper programs, the customer receives the prizes immediately after the purchase of goods of a certain value, for example, glassware, casseroles etc.

6. Samples - Free samples are offered to the customers. Usually, big departmental stores and supermarkets have sample perfumes for testing.

7. Demonstrations - One instance is the demonstration of the use of vacuum cleaners

8. Referral gifts - Retailers offer gifts to their customers for bringing in a new customer.

9. Pencils, calendars, diaries, wallets, etc. - Products carrying the retailer's name are given to the customers on purchasing their products.

10. Special events - Retailers may organize many special events like fashion shows, autograph sessions with celebrities, or theme festivals.

11. Buy one get one free – Retailer may offer a merchandise free on the purchase of another

- **Seasonal Promotions:** There are specific periods during the year when sales are at a higher at peak seasons and lower during off-peak seasons. The major reason for this is the different seasons and holidays throughout the year. During these holidays, retailers' maximize the marketing and advertising of their store. Retailers' also decorate the store depending on the particular season or holiday. Retailers' make the shopping a fun experience as a strategy for customer retention.
  Example: Pongal, Diwali, Valentine's Day, Mother's Day, Father's Day, Summer & winter sale, Christmas, New Year Day, Back to school sale etc.

- **Store Atmosphere and Visual Merchandising:** Store atmosphere is an important way of promoting retailers' image to customers. It is the overall ambience of the store. It includes: color, smell, music, wall paintings, design, ceilings, flooring etc.

  Visual Merchandising: Retailers' create visual displays and arrange the merchandise assortments within a store to improve the layout and presentation to increase store traffic and sales which puts the merchandise in limelight. The shop itself is regarded as a considerable advertising medium, and it may well be a familiar landmark. Some large department stores rarely advertise, but their shops are so big that they advertise themselves. *Example:* Special fixtures, Display hanging signs, leaflets, demonstrators, window displays etc.

- **Websites:** Retailers' use their company websites to build their brand image to communicate about their firms' offers, prices, line of business, mission, location, branches, discounts, store rankings and contact details.

II. **PAID PERSONAL COMMUNICATIONS**

- **Personal Selling:** Personal selling involves oral face to face communication with one or more prospective customers' for selling their products by the sales force. These days sales presentations are going high-tech. Computer-based multimedia presentations are considered the next wave in sales-force automation. With a multimedia-ready notebook

computer or LCD projection computer, salespeople can bring colour, animation, video, audio, and interactivity as well as the latest product and pricing information to their presentations. *Example:* Eureka Forbes and Aqua Guard use personal selling to promote their sales.

- **E-mail:** Retailers' use E-mail to communicate the information about their firm, line of business, new product launch, sales promotions, franchise information and also use this as a tool to promote CRM and customer loyalty. *Example:* Retailers like INORBIT mall, Central use this strategy to promote CRM and enhance store loyalty. They also send wishes to customers' on their birthdays and festivals as a part of this.

III. UNPAID IMPERSONAL COMMUNICATIONS

Publicity: Publicity is one non-personal which is in the form of news story that is transmitted through mass media. The various types of publicity are:

- *Planned Public Relation*: A retailer outlines its activities in advance

- *Unexpected publicity*: In case of this the media reports on the retailers' without any advance notice.

- *Complementary publicity*: In case of this media reports on the retailer in a complimentary manner

IV. UNPAID PERSONAL COMMUNICATION

Word-of-mouth Communication: One of the most effective ways of advertising is still word-of-mouth advertising. Recommendations by other consumers are always more believable than retailers' advertising. Word-of-mouth advertising takes place via customer ratings, comments in forums, reviews and blog contributions. Online retailers' today offer their customers the chance to rate and comment on their purchase. In addition, consumers compare notes on specific providers in special forums or social networks. Many customers' also comment about stores, products and offers in their blogs and thus create an additional medium in terms of word-of-mouth advertising.

7.9 Case Study: Shoppers Stop Advertising Strategy

Shoppers Stop is one of the most visited mall chain in India. It was founded in the year 1991owned by Raheja Group. It has 177 stores in 18 cities. It has 51 stores plus growing, 4.5 million customer walk-ins per month, ~4 million First Citizen customers account for 75% of the purchases and 70% purchases are through cards & average transaction value of Rs. 2500.The target Audience for Shopper's Stop Advertising is:

- 25-35 years

- Middle & Upper middle class

- Youth, Housewives & Professionals/Self-employed

Promotional mix used by Shoppers' Stop:

1. **Communication strategy:** Reaching customers through local language. Example: Shoppers' Stop store in Lucknow is named as 'Tehzeeb' for localization.

2. **Advertising:**
   - ✓ Print Ad
   - ✓ Media Ads
   - ✓ Outdoor Ads
3. **Sales Promotion:**
   - ✓ Gift vouchers
   - ✓ Festive offers
   - ✓ Contests
   - ✓ POP materials
4. **Festive Promotions:** Organizes local festivals like Durga puja in Kolkata, Onam in south and Dhanteras in north.
5. **Public relations:**
   - ✓ Shoppers stop collaborated with CRY to retail eco-friendly paper bags designed by unprivileged children.
6. **Direct marketing:**
   - ✓ Loyalty programs through 'First Citizen'. The customers get reward points, exclusive offers, benefits and privileges using this.
7. **Packaging:**
   - ✓ Logos on shopping bags and promotion using 'Fashion through ages'
8. **Promotional events:** 'Fly to Santa Land', 'Gear up for school' and 'Salwar kameez Dupatta exchange' etc.
9. **In-store Promotions:** In-store promotions include advertising on atrium drop downs, mall Façade, store window, sensomatic branding, pillar branding, trail room branding, floor graphics and stickers, lift door, branding, shopping bag branding, merchandise tagging, sample activity, car display, stair case and elevator branding, cut outs, trail room door, washroom door, back door & front door of lift and cashier badge branding.

7.11 Summary

Advertising has become an essential and integral part of retailers' activities to promote sales, to introduce new product, to create good public and for educating customers etc. Without advertising retailing cannot happen .Advertising is useful both to retailers' as well as customers' as it encourages people to purchase goods and services, it bridges the gap among customers' and retailers' through advertising message , it contributes to bring revenues to retailers' by increasing demand and provides opportunities to people to improve their income. More retailers are turning to branding to compete with the competition. The retail business is significantly changing. Part of the change is driven by the way consumers' shop—from supermarkets, discount department stores, wholesale clubs, shopping centers, and malls, to big-box category killers—shopping patterns have changed. These changes have given rise to sophisticated segmentation and niche marketers. Today's' customers' are exposed to wide formats and multiple channels to access the information which pose a major challenge to retailers'. Retailers use virtually every medium to promote their stores, products, and services. Consumers are looking for ways to save time and money. So retailers need to devise more sophisticated marketing information and align the media for reaching the target audience effectively.

7.12 Self Assessment Questions

1. Explain the role and importance of advertising in retail sector? Discuss this through case study of a top retailer.
2. Discuss the various steps involved in designing a retail advertising mix by considering a specific retail format of your choice?
3. Critically analyze the various promotional mix strategies used by retailers' in today's highly competitive environment. Also explain how the promotional strategies vary in case of apparels and grocery retailers.
4. Describe the various types of advertising in modern retail with relevant examples?
5. Who are the major participants involved in retail advertising? Briefly discuss the role played by them in designing retail advertising strategy?
6. Illustrate the various types of retail advertising media. Choose three products or services offered by three retailers' and compare how the media usage differs in the three cases.

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Unit 8- Customer Relationship Management

Structure of the unit

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8.0 Objectives

After completing this unit you will be able to understand:
- Meaning of customer loyalty
- Meaning of customer relationship management
- CRM process
- Different steps involved in CRM process

8.1 Introduction

Customer is the pivot of all the activities in a retail firm. Hence customer relationship and earning their patronage is vital for the success and growth of any retail firm whether big or small. Customer Relationship Management (CRM) is a collaborative and holistic approach of retail marketing that develops and manages relationship with customers. On the basis of CRM philosophy the retailers can increase their profitability by building relationship with their frequent customers. Through CRM processes they identify their key customers, gauge their satisfaction level, explore their expectations and build a system and process to meet those expectations continuously. Thus, the goal of CRM is to develop a base of loyal customers who patronise the retailers frequently.

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8.2 Customer Loyalty through CRM Programmes

Customer loyalty means that customers are committed to repeatedly purchase the goods and services from the retailer and ignore or resist the clutter created by the activities of competitors to attract them. Apart from being satisfied by the services offered by the retailer, loyal customers have a bond with the retailer, which is based on a positive feeling about the retailer. The customer relationship management process aims at developing customer loyalty and repeat-purchase behaviour among the key customers of the retailer.

Customer loyalty helps a retailer in accurate sales forecasting, generating assured sales and revenue, reducing the cost of customer retention, enhancing risk bearing capacity, improving visibility of business performance

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8.3 Overview of the CRM Process

CRM is a continuous and repetitive process that utilizes customer information into customer loyalty through four activities:

(1) collecting and maintaining customer data

(2) analyzing the customer data and identifying key customers

(3) developing CRM policies and programmes accordingly

(4) implementing CRM programmes

(5) evaluating CRM programmes

The analysis translates the customer data into information and activities that offer value to these targeted customers. Then these activities are executed through communication programs undertaken by the marketing department and customer service program implemented by customer contact employees, typically sales associates. Each of the four activities in the CRM process is discussed in the following sections. Retailing View 11.1 describes the development of the CRM program at Harrah's.

Exhibit 11–1

The CRM Process Cycle
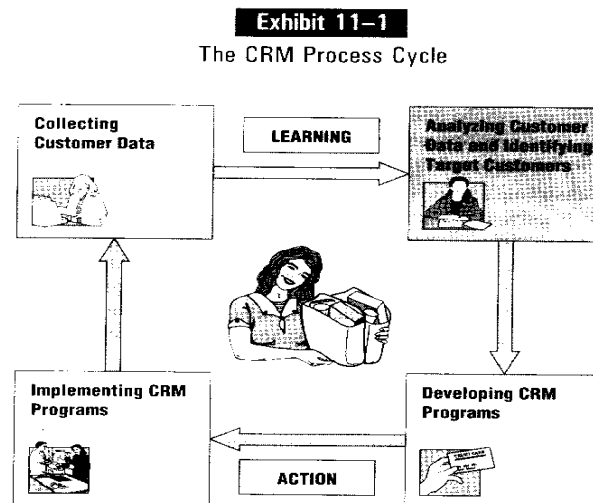
Fig. 8.1 CRM Process

8.3.1 Collecting and Maintaining Customer Data

The process starts with the collection of data about a retailer's customers through which a customer database is created that helps in classifying customer types. This database contains all the information the firm has collected about its customers that becomes foundation for subsequent CRM activities.

(i) Customer Database

The database generally contains the following information:

- Transactions – Complete information of the purchases made by the customer, including the date of purchase, the name of the product and

91

quantity purchased, the amount paid for the merchandise, the profit made by the retailer, if sales promotion scheme or other promotional offer availed at the time of purchase.

- Customer contact information: A record of the interactions of the customer and the retailer, including visit to the retail store in person by the customer, visit to the retailer's Web site, inquiries made through in-store kiosks, and telephone calls made to the retailer's call center, number of catalogs and direct mail sent to the customer.

- Customer preferences – It includes psychographic information about the customer- the likes of the customer, such as favorite colour, brands, fabrics and dresses, fragrance, flavours, music as well as apparel sizes.

- Demographic information. - Data describing income, profession, education, residential address, family size and other related information of the customer that can be used in classifying customers.

- Responses to marketing activities - Analysis of transaction and contact data helps in interpreting the customer's responsiveness to marketing activities.

(ii) Identifying Information

It is relatively easy to develop a database for catalog, internet, and warehouse club customers. Customers who make purchases through non-store channels have to provide their contact information for product delivery on the basis of which the customer can be identified. In case of warehouse clubs, it is also easy to keep track of purchases made by customers as they have to present their membership card at the time of making purchases. In these cases, the transaction takes place with the identification of the customer .When the customers apply for the retailer's own member shopping cards (like Petrocards, Westside, Reliance One, Lifestyle, Big Bazaar etc.) then his personal information is collected and details of each purchase made by him is fed into his database identified by the card number. While in case of in-store purchases made by the customer, the payment mode (cash or cheque or debit card/credit card) may differ from transaction to transaction in such cases the information is not generated automatically but has to be sought explicitly

Therefore the store-based retailers can collect information by:

(1) asking customers for their identifying information for eg.in form of authorized identity card, PAN card etc.(presentation of copy of PAN card is necessary for any purchases made above Rs. 50,000 at Tanishq stores)

(2) using biometrics to identify customer (For eg. customers entering the store can have their finger scanned to receive a printout of their personalized promotional offers)

(3) offering benefits through frequent shopper contests - When customers enroll discretionary ground in such programs, they tend to readily disclose some descriptive information about themselves and their household because they generally prefer to get something extra reward or returns for their purchases. This information can be used in developing customer database by the retailer. The primary benefits of these programs for retailers are collecting the customer data and using the information to communicate the promotions to target customers.

(4) connecting Internet purchase data and store purchase data.- When customers use third-party credit cards such as Visa or MasterCard to make a purchase in a store, the retailer cannot identify the purchase by the customer. However, if the customer used the same credit card while shopping at the retailer's Web site and provide shipping information, the retailer could connect the credit card purchases through its store and electronic channels.

Some retailers have their sales associates at the customer desk who ask customers for their personal information, such as their phone number or name and address. This information is then used to link all the transactions for the customer. But sometimes customers are reluctant to provide the information because they feel that the sales associates may violate their privacy by using such information.

Fig. 8.2 Retailer's Card

(iii) Protecting Customer Privacy

In order protect their privacy, the customers have to rely on retailers to take the necessary precautions by incorporating privacy safety software such as firewalls and encrypting data every time it is transferred to prevent its being intercepted.

8.3.2 Analysing Customer Data and Identifying key Customers

In this stage the database is sought to be transformed into desired information. The objectives for analysing the customer database are (1) identifying patterns in the data that can help in accurate sales forecasting and allocating merchandise to stores accordingly (2) deciding place of display of merchandise categories in a store.(3) deciding and designing customised offers and priviledges to be offered to the customers.

(i) Retail Analytics

Retail analytics are the application of statistical techniques and models to develop customer purchase patterns. Recommendations are made to the retailers for better customer management on the basis these patterns.

- **Market Basket Analysis** is a specific type of retail analytics that focuses on examining the composition of the basket, or bundle, of products purchased by a household during a single shopping occasion. This helps in identifying where to display a product in the store.

Tesco Uses Data Collected from its frequent-shopper program

Tesco, the largest supermarket chain in the UK and the third largest in the world, has been very effective at analyzing and exploiting the data it collects through its Clubcard frequent-shopper program. To encourage customers to enroll in the program, Tesco gives them points for every pound they spend in its stores, on its Web site, and at its gas stations. Customers who spend 25 pounds a week for 10 weeks get double points. The points are redeemed by reducing the shopping bill when customers check out. in addition, customers can get more benefits by joining of Tesco's clubs. For example, members of the Baby and Toddler Club get expert advice and exclusive offers to help them through the stages of parenting from pregnancy to childhood (tesco.com/babyclub). members get discount coupons on baby essentials a permit allowing them to park nearer to the store, and a free pampers hamper filled with baby items and special treats for the mothers.

(ii) Identifying Key Customers

CRM aims at identifying and serving the key and most profitable customers. It is assumed that heavy spenders may spend even more if the retailer meet their needs in more organized manner. Hence, information in the customer database is analysed to develop a score indicating how valuable any customer is to the firm.

Customer lifetime value (CLV)

A commonly used measure to score value of each customer to the firm is called customer lifetime value. **Customer lifetime value (CLV)** is the expected contribution from customers to the retailer's profits over their entire relationship with the retailer. CLV is based on the assumption that the customer's future purchase behaviour will continue to be same as it was in the past. Past purchase behaviour data of the customer and sophisticated statistical methods are used to is used to calculate CLV and forecast future purchases. The CLV of a customer who purchased merchandise worth Rs.1200 during a visit to retailer six months ago will be less than the CLV of a customer who has been purchasing merchandise of Rs.200 every month for the last six months.

RFM Analysis

An RFM (Recency, Frequency, and Monetary Analysis) analysis is often used by catalog retailers and direct marketers for analyzing customer behaviour, identifying the retailer's best prospects and generating mailing lists. It is analysed on the basis of three attributes -

Recency - how recently they have made a purchase,

Frequency - how frequently they make purchases

Monetary value - how much they have spent in a definite period of time. In the hypothetical example given below for a particular supermarket retail all the three attributes have been divided into different categories of frequency(1-2, 3-4, 5-6 , over 6 times), recency (0-2 months, 3-4 months, 5-6 months, over 6months) and monetary value (money spent).

RFM Analysis for a Catalog Retailer

Frequency	Monetary	RECENCY			
		0-2 months	3-4 months	5-6 months	Over 6 months
1-2	<$50	5.0%*	3.5%	1.0%	0.1%
1-2	Over $50	5.0	3.6	1.1	0.1
3-4	<$150	8.0	5.0	1.5	0.6
3-4	Over $150	8.8	5.0	1.7	0.8
5-6	<$300	10.0	6.0	2.5	1.0
5-6	Over $300	12.0	8.0	2.7	1.2
Over 6	<$450	15.0	10.0	3.5	1.8
Over 6	Over $450	16.0	11.0	4.0	2.0

Table 8.1 RFM Analysis for a Catalog Retailer

On the intersection values of these categories, a customer segment is created and could be categorised as
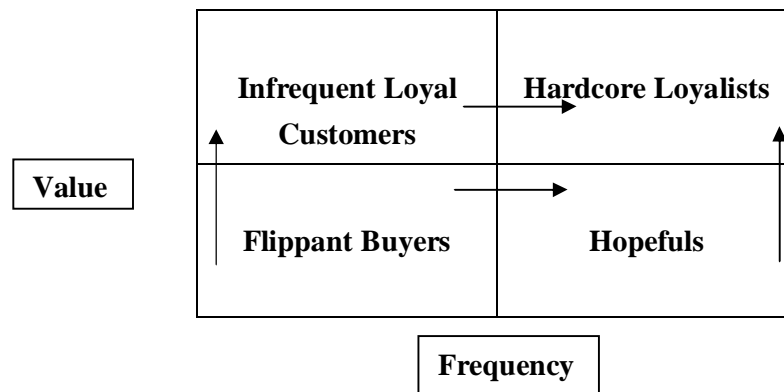
Fig. 8.3 RFM Model

Retailers try to convert hopefuls and infrequent loyal buyers (switchers) into hardcore loyalists by implement different marketing strategies and offers. Thus, RFM analysis also helps in estimating CLV.

Customer Pyramid

It is often experienced by most retailers that most profitable customers of the retail firm are relatively small in number. The importance of identification of these key profitable customers can be understood better in the context of **Pareto's 80:20 Rule.** This means 80% of the sales or profits are contributed from 20 % of the customers. Thus, retailers could group their customers into different customer segments on the basis of their CLV scores and RFM analysis. Retailers can divide

their scheme retailers to develop more effective strategies for each of the segments. Each of the four is described next.

• Platinum segment - This segment is composed of the customers with the top 25 percent CLVs. These are key customers of the retailers as they are the most profitable and loyal customers.
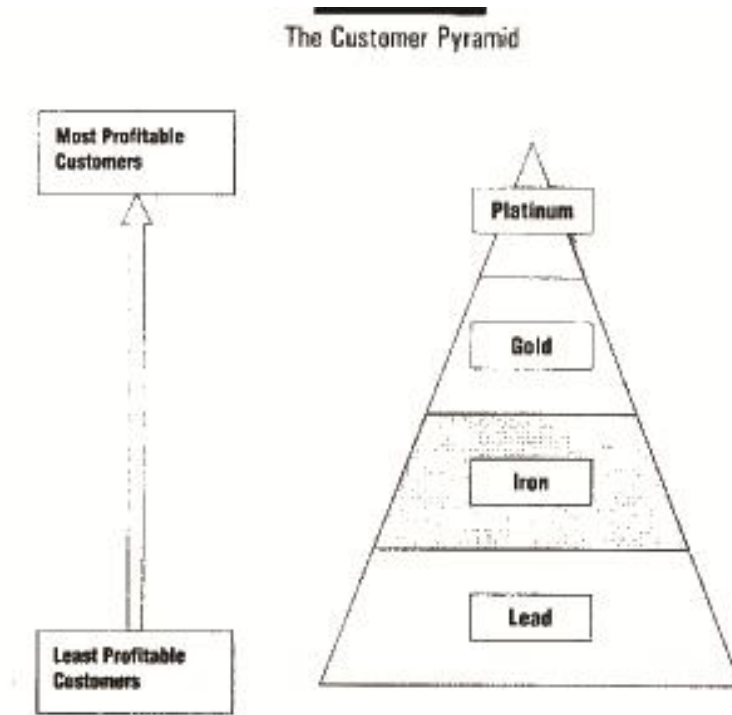
Source: Valarie Zeithaml, Roland Rust, and Katherine Lemon. "The Customer Pyramid: (...) and Serving Profitable Customers," *California Management Review* 43 (Summer 2001), (...) Reprinted by permission.

Fig. 8.4 RFM Analysis for a Catalog Retailer

• Gold segment - This segment is composed of the customers who are not as loyal as platinum customers and may switch to some of the retailer's competitors because price plays an important role in their decision making.

• Iron segment - The customers in this segment purchase a modest amount of merchandise, but their customer behaviour (spending level, loyalty, and profitability) does make them entitle for special treatment.

• Platinum segment – This segment of customers has lowest CLV as they neither shop regularly from the retailer nor they buy much.

8.3.3 Developing CRM Programs

After classifying the customers into different segments on the basis of CLV and RFM, the next step in the CRM process is to develop CRM programs for the different customer segments. These programs may include objectives like-

    (i)   Retaining key customers
    (ii)   Converting good customers into best customers
    (iii)   Getting rid of unprofitable customers

96

Customer Retention

Retailers may use following four approaches to retain and increase spending by their key customers.

(1) Frequent-shopper programs (2) Special customer services

(3) Personalization   (4) Community.

(1) *Frequent-Shopper Programs* – These programs are used to encourage repeat purchase behaviour and build customer loyalty. Some of the offers used to build repeat purchases and loyalty are:

• Transactional benefits – Benefits are tied to the volume of purchase to motivate customers to increase the level of their purchases. These benefits may include point collection (customers accumulate points that can be redeemed for rewards), discount schemes (on qualifying level of particular amount of purchase), value-added services (frequent flyers benefits by indigo.com etc). Through these benefits customers generally accept that the people who spend more should receive greater rewards.

• Non transactional benefits – These are intangible benefits which make customers feel proud and privileged. For eg. wishing customers on their birthdays, marriage anniversary etc.

The retailer should be cautious before offering any benefit. The offer should feature transparency and simplicity so that customers may be able to understand it quickly and easily and accept it readily and move to next spending level. The benefits should be revised as per the changes in the competitive environment.

(2) *Special Customer Services* - Some retailers provide unusually high-quality customer service to build and maintain the loyalty of their best customers. For eg. airlines provide special phone numbers, check-in-services and a higher level of responsiveness to its customers identified as frequent flyers.

(3) *Personalization* - An important limitation of CRM strategies is that they are developed for market segments, But the mantra of success for the retailers is personalized services. For eg. a platinum segment in the customer pyramid might have large number of customers who are not identical, as it might include a 25-year-old single working woman whose needs are quite different from those of a 45 years old homely mother with two children. Thus, an offering might be most appealing for a customer but not necessarily appealing to the majority of customers in the segment. Customised services also become important due to cultural and linguistic differences in a country like India.

Retailers can offer personalised services to its key customers with help of technology in a cost effective manner. With the availability of customer-level data and analytical tools, retailers can now economically offer unique benefits and target messages to individual customers. They can develop programs for small groups of customers and even specific individuals. For example, Big bazaar sends Birthday Wishes to its customers. Tanishq offers special discounts to its customers on their birthdays and special days like Doctor's Day, Husband's day etc.

E-tailers also customize their homepage to match the customer's search. If a customer is searching for laptops then the website also displays those laptops on which some special offer or discount etc (10 percent extra off) is applicable. The retailers can also customise the homepage so that whenever the customer visits the

page next, items similar to those previously searched are displayed. Amazon.in for instance greet its customers by name on its homepage and display those merchandise that were searched by the customer for long duration during his last visit to the website.

Complaint Handling Mechanism is also set up by retailers in the shops as 'Customer Desk', to tackle any problem in its initial stage. It provides services like exchange of defective items, refunds, guarantee/warrantee issues, product alteration in case clothings etc. E-tailers provide online and telephonic complaint handling mechanism by providing their email id and contact number. Dissatisfied customers can contact them either by sending an email or talking to retailer's customer care executives for registering their complaints, return requests or settling issues related to refunds.

(4) *Community* - A retail brand community is a group of customers who are bound together by their loyalty to a retailer and the activities in which the retailer engages. Community members identify themselves with other members and share a common interest and participation in activities related to the retailer. They also feel an obligation to attract new members to the community. By participating in such community, customers become more involved and reluctant to the offers of competing retailers. For eg Tanishq organises 'Customer Meet' for its key customers every month to view designs of upcoming jewellery, followed by refreshments.

Converting Good Customers into Best Customers

The context of the customer pyramid is to generate more sales by converting good customers into best customers, it is referred to as customer alchemy - converting iron and gold customers into platinum customers.

Customer alchemy can be achieved through *add-on selling* (offering additional new products and services to existing customers) that would increase the customer's spending for the retailer's merchandise.

E-tailers like jabong.com, amazon.in, snapdeal.com provide personalized recommendations for merchandise based on previous searches or purchases made by the customers. The site recommends those items that have been bought by some other customers who have purchased the same merchandise earlier which is being examined by the current customer (under title 'Those who purchased this item also purchased –'). Jabong.com recommends items to its customers by displaying merchandise under title 'You May also like'.

Cross selling can also be tried whereby a retailers ties with another retailer. Shopper's Stop offers First Citizen card in association with Citibank (co-branded cards). Big bazaar payback card is tied with BPCL petrol pumps. Purchases made at petrol pumps add to the points earned for that card.

Dealing with Unprofitable Customers

In many cases, the bottom tier of customers actually has a negative CLV. Retailer has to bear losses on every sale they make to these customers. For example, catalog retailers or e-tailers have customers who might be regularly purchasing three or four items and return all but one of them. The cost of processing two or three returned items is much greater than the profits coming from the one item that the customer kept. Customers in the bottom tier may also be there because they

stopped buying from the store and then started again. For example, customers may switch because of an attractive offering by the competitor Approaches for getting rid of these customers include –

(1) Charging for the services they are misusing

(2) Offering only basic and less costly services

8.3.4 Implementing CRM Programs

The effective and fruitful implementation of CRM programs requires the close coordination of activities by different functional areas in a retailing firm. The IT department needs to collect and analyze the relevant information on time and make it readily accessible to the employee implementing the programs-the frontline service providers and sales associates and the marketers responsible for communicating with customers through impersonal channels (mass advertising, direct mail, e-mail). Store operations and human resource management needs to hire, train, and motivate the employees who will be using the information to deliver personalized services to the customers.

8.3.5 Evaluating CRM Programs

There is a need to develop timely reportsin order to evaluate the performance of CRM programs. These reports help in identifying movement of members from one RFM cluster to another and track quarter by quarter response.

Customer Relationship at Shoppers Stop-First Citizen

(Loyalty Program)

First Citizen, the loyalty program of Shoppers Stop, was launched in 1994 when. At that time the loyalty program of Shoppers stop was one of it kind in the industry. Over the years it has evolved as one of the best in the Indian retailing. Shoppers Stop was declared as the "Most Respected Company" and 'No.2 in Consumer Loyalty" in a survey conducted by Business World in April 2007. Again in 2007, it was conferred the "Loyalty Program of the Year" award at the ICICI Retail Excellence Awards.

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8.4 Summary

Customer relationship management is a continuous process that turns customer data into customer loyalty through five activities: (1) collecting customer data, (2) analyzing the customer data and identifying key customers, (3) developing CRM programs, and (4) implementing CRM programs (5) evaluating CRM programs. The first step of the process is to collect and store data about customers. Retailers with the use of IT and variety of other approaches collect customer data and identify the customer in connection with each transaction. The second step is to analyze the data by tracking the buying behaviour of customers and identify the

most profitable customers. An example of retail analytics is a market basket analysis that provides information for the location of merchandise categories. Two approaches used to rank customers according to their profitability are categorizing customers on the basis of characteristics of their buying behavior-their recency, frequency, and monetary value (RFM) and calculating the customer's lifetime value (CLV). Using this information about customers, retailers can develop programs to build loyalty among their best customers, increase their spending (e.g., converting gold customers into platinum customers), and deal with unprofitable customers (getting rid of them). Four approaches that retailers use to build loyalty and retain their best customers are (1) launching frequent-shopper programs, (2) offering special customer services, (3) personalizing (4) community

Effective implementation of CRM programs requires coordination among number of different functional areas in the retailer's firm.

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8.5 Self Assessment Questions

1. What is a customer relationship management (CRM) program. What is its importance?
2. Why do retailers want to determine the lifetime value of their customers? How does past customer be- havior help retailers anticipate future customer retention?
3. What are the different approaches retailers can use to identify customers by their transactions? What are the advantages and disadvantages of each approach?
4. How does a retailer use transactions, customer contacts, customer preferences, descriptive information, and responses to marketing activities in its customer database?
5. Discuss the CRM program in detail.

8.6 Reference Books

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Unit 9 - Merchandise Management

Structure of Unit

9.0 Objectives

After completing this unit, you would be able to:
- Understand the concept of merchandise management;
- Understand the evolution of the functions of merchandising;
- To know the factors which affect Merchandising Management
- Understand the role and responsibilities of buyer;
- Understand the role and responsibilities of merchandiser;
- To know the stages in merchandise management process.
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9.1 Introduction

In the ever changing world of retail, each retailer is competing for the consumer's attention and a share of his/her wallet. While it is necessary to have the retail location and communication for the retail store, the products to be sold are also very important. For achieving the above-mentioned objective, the strategic aim and primary objective of every retailer is to sell merchandise and service. This necessitates the development and implementation of a merchandise plan by the retailer so that they can maximize their returns. Hence, the retailer has to decide what to buy and how to buy so that the maximum returns can be ensured. All kind of retailers, whether small or large have to take merchandise related decisions related to variety of items being supplied by large number of vendors. In this chapter we will get to know about the process of merchandise management being practiced by retailers.

9.2 What is Merchandise Management?

9.2.1   What is Merchandising?

Merchandise when used as *noun* means commercial goods or commodities and when it is used as a *verb* it means to engage in the commercial purchase and sale of goods and services. According to **Collins Dictionary**, merchandising means the selection and display of goods in a retail outlet. Merchandising is the arrangement and design of goods and retail space to make the buying experience more

attractive and fun for the consumer. Merchandise activity includes various display techniques, free sampling, pricing, on-the-spot demonstration, shelf talkers, special offers and other point-of-sale methods.

According to **American Marketing Association**(AMA), 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." The success of any retail operation depends to a greater extent, on the retailer's ability to provide the right goods to the consumer, at the right place, at the right time and at the right place.

Activity A

1. Visit a Mom-and-pop store near your locality? Observe the merchandise display and take notes with reference to Confectionery products.

2. Visit a Departmental Store near to your location? Observe the merchandise display and take notes with reference to Confectionery products.

3. Compare and contrast the merchandise display of Confectionery product at both the retail outlets.

9.2.2 What is Management?

Management means the process of dealing with or controlling things or people. Management in business and other organizations means to coordinate the efforts of people to accomplish goals and objectives using available resources efficiently and effectively. Management comprises planning, organizing, staffing, leading or directing, and controlling an organization or initiative to accomplish a goal. An Organization can be viewed as a system, therefore, management can be defined as human action, including design to facilitate the production of useful outcomes form a system. This view opens the opportunity to 'manage' one self, a prerequisite to attempt to manage others.

9.2.3 Merchandise Management

In simple words, Merchandise management is concerned with the planning and controlling of the retailer's inventories. This means that *Merchandise management involves a process by which a retailer attempts to offer the right quantity of the right merchandise in the right place at the right time along with meeting the financial goals of the company.* The responsibility of the person dealing with merchandise management process has to balance the financial requirements of the company based on a strategy of merchandise planning and purchasing.

David Gilbert assigns a more complex role of merchandise management. According to him, *merchandise management is the planning and implementation of the acquisition, handling and monitoring of merchandise categories for an identified retail organization.*

Merchandise Management

Figure 9.1: Elements of Merchandise Management

Merchandise management emphasizes on the following certain key issues:

- Merchandise is being acquired for meeting demand in future, so forward planning is necessary in relation to changing consumption tastes and demand.

- The merchandise required is to be acquired from either the manufacturer directly or wholesaler indirectly and is to be handled appropriately to ensure that it will be sold in perfect condition.

- Since the financial aspects of buying merchandise is considered to be an investment decision, it is necessary to monitor all the aspects of the process to ensure that adequate returns are achieved.

Merchandise management is a key driver of retailing success. In some ways, merchandise is an art: retailers use their experience and intuition to spot trends and changes in consumer buying behavior and select merchandise accordingly. But merchandise is also a science. By taking a disciplined, analytical approach to merchandising, retailers can place the right products in front of the right consumers at the right time, leading to growth in revenues and profits. Effective merchandising can drive dramatic top and bottom line improvements through increases in sales revenues, significant gains in gross margins, and hefty reductions in inventories.

Merchandise Management can be termed as the analysis, planning, acquisition, handling and control of the merchandise investments of a retail operation.

- **Analysis** because retailers must be able to correctly identify their customers before they can ascertain consumer's desires and their needs/ requirements for making a good buying decision.

- **Planning** is important because merchandise to be sold in the future must be bought now.

- **Acquisition** because the merchandise needs to be procured from others – either manufacturer or wholesaler.

- **Handling** involves seeing that the merchandise is where it is needed and in the proper condition to be sold.

- **Control** is required since the function of merchandising involves spending money for acquiring products therefore, it is necessary to control the amount of money spent on buying.

Merchandising is the day-to-day business of all retailers. As inventory is sold, new stock needs to be purchased, displayed and sold. Hence, merchandising is often said to be the core of retail.

Activity B

1. Visit a departmental store near to the place where you stay and talk to the manager of store. Gather information related to way they manage their merchandise. Write down their methods. Discuss the method and with your colleagues.

9.3 Evolution of Merchandising

Since the inception of retail organizing had taken place merchandising has become more specialized. In unorganized retail merchandising was and is important too but that was and is taken care of by the owner of retail store. As the store owners operated less number of stores, the functioning of buying the merchandise, pricing it etc. was much simpler. When the scope of operations of the retailer started to expand and grow the workload on the buyers increased significantly. Quite often buyers had little information and time and they ended up using approximations or guesses based on the sales volumes to allocate merchandise between stores. This sometimes resulted in stores exchanging merchandise among them.

This limitation led to function of a *planner,* whose job was to act as a link between stores and buyers. Planners had to collect and study store level data and the buyers on the hand spend more time with the vendors for favourable and efficient deals. Today we see in modern and organized retailing, merchandise management has become a major activity.

9.4 Factors affecting the Merchandising Function

Merchandising does not function in isolation. It is affected by various factors like the organization structure, the size of the retail organization and the merchandise to be carried. (See Figure 13.2)

- It is rare that any two stores are organized in the same or identical way; hence, the function of merchandising also varies from one organization to another. For e.g. in case of chain store, the buying function may be centralized or decentralized geographically depending on the retail organization.

- The merchandise to be carried by a retailer largely determines the responsibilities of the merchandise. The buying for basic merchandise is fairly different form buying fashion merchandise.

- The organization structure that the retail organization adopts also affects the merchandising function. Some organizations may demarcate the role of the buyer and the role of merchandise separately, while in a smaller organization one person may carry out all the duties.
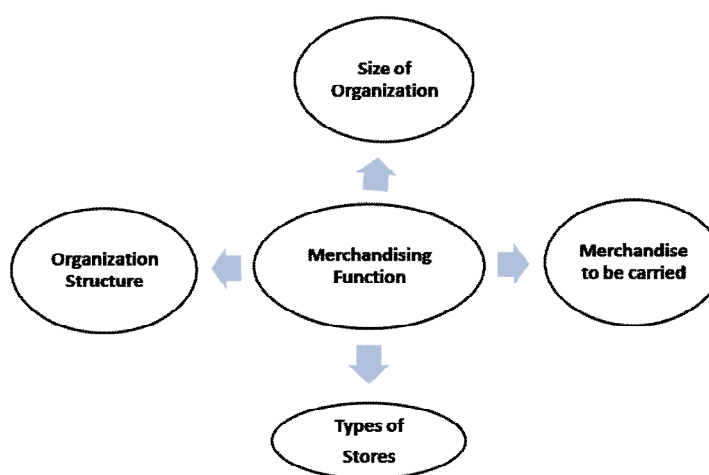

Figure 9.2 : Merchandising Function

These factors have the major affect on the merchandising decisions taken by the retailer. These are the factors that affect and shape the *merchandising philosophy* of the retailer. The merchandise philosophy is a reflection of the retailer's target market, which is the customer segment that retailer wishes to cater to. Retailer evolves a strategy for store location, pricing and the product assortment keeping in mind the target market. The merchandising philosophy varies from retailer to retailer. In the apparel industry some retailers may be design driven and some may be price driven.

9.5 Merchandise and Buyer: Role and Responsibilities

The merchandiser is responsible for particular lines of merchandise. For example, in a department store, there may be merchandiser for menswear, women's wear and kids wear. The basic duties of the merchandiser can be divided into four areas:

- **Planning:** They formulate the policies for the area in which they are responsible. Forecasting sales for the forthcoming budget period is required and this involves estimating consumer demand and the impact of changes in the retail environment. The sales forecasts are than translated into budgets to help the buyers work within the financial guidelines.

- **Directing:** Guiding and training buyers as and when needed, is also a function of the merchandiser.

- **Coordinating:** Merchandiser supervises and coordinates the work of more than one buyer.
- **Controlling:** Merchandiser can also visit the suppliers premise with buyer sometimes to control and more importantly for working closely with retails buyers, if they are different.

The buyer in a retail outlet is responsible for following jobs:

- Developing the merchandising strategies for the product line, store or organization that he/ she is responsible for.

- Planning and selecting merchandise assortment keeping in mind current market trends, economic developments, understanding the needs and wants of the target customers and locating a product to match those needs.

- Vendor selection, development and management of the alongwith the negotiations is one of the prime responsibilities of buyer.

- Pricing the merchandise to achieve the required targets in terms of gross margins.

- Allocation of merchandise to various retail stores is an integral function of buyer. Buyer needs to control inventory by identifying fast, medium and slow moving products.

The structure of the merchandise department largely depends on the organization structure adopted by that particular retail organization.

Activity C

1. Visit the nearest department store and interview buyer and merchandiser of the store related to their role and functions in the organization?

9.6 Process of Merchandise Planning

The retailer's reason for his existence or his vision and mission for being, largely dictates the business strategy adopted. A part of this strategy is also the retail that retailer chooses to operate in, which in turn determines the type of product, the price etc. that is retailed in the store. The starting point of Merchandise Planning is analysis. Merchandise Planning can be defined as the planning and control of the merchandise inventory of the retail firm, in a manner which balances between the expectations of the target customers and the strategy of the firm. The main objective of Merchandise Planning is to ensure that both the customer's merchandise needs and the retailer's financial requirements are satisfied by creating an acceptable balance between merchandise inventories and sales.

Merchandise planning is beneficial to both customers and the retailer. It enhances the possibility of the right assortment of goods, with the adequate amount of depth to the retailer and maintains adequate inventory level. From the point of view of the customer it increases the choices available to the customer and reduces the possibility of facing a situation when the store is out of stock of the merchandise needed.

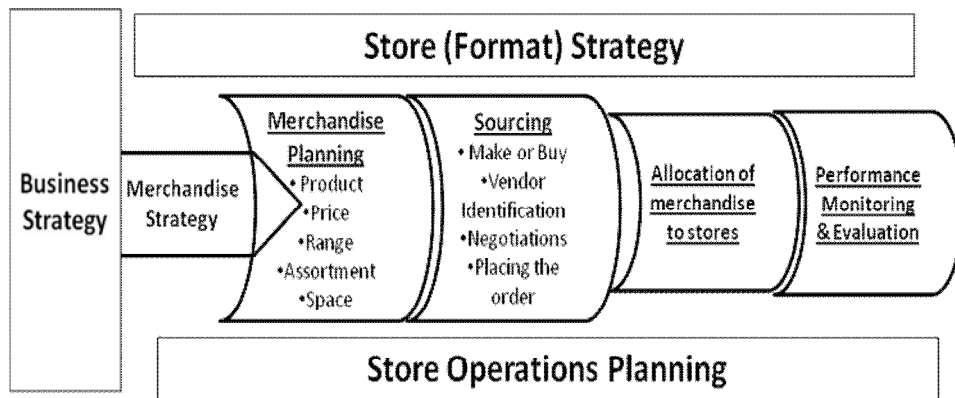Figure 13.3 outlines the overall framework of Merchandise Management:

Figure 9.3: The Framework of Merchandise Management

The process of merchandise planning is a four stage process. The stages of Merchandise Planning are as follows:

Stage I: Developing the Sales Forecast

- Reviewing past sales

- Analyzing the changes in economic conditions

- Analyzing the changes in the sales potential

- Analyzing the changes in the marketing strategies of the retail organization and the competition

- Creating the sales forecast

Stage II: Determining the Merchandise requirements

Stage III: Merchandise Control – The Open to Buy

Stage IV: Assortment Planning

- The Range Plan

- The Model Stock Plan

9.6.1   Stage I: Developing the Sales Forecast

Forecasting involves predicting what a consumer may do under a given set of conditions. A sales forecast may be made by merchandiser, based on the targets given by the top management; or it may be handed down by the top management itself, depending on the retail organization. A sales forecast is the first step in determining the needs of the product or category. A sales forecast is usually made for a specific period of time; may be a week or a season or a year. A forecast may be for a short term, i.e. up to one year, or for a long time, i.e. for a period more than one year. The process of developing sales forecast involves the following steps:

- *Reviewing past sales:* This is necessary to establish if there is any pattern or trend in the sales figures. A look into these figures can give an indication of the sales in the coming year assuming other conditions constant.

107

- *Analyzing the changes in economic conditions:* The economic conditions are dynamic and keeps on changing and have a direct bearing on consumer tastes and spending habits. All the economics factors in the environment affect business.
- *Analyzing the changes in the sales potential:* it becomes imperative and compulsory to relate the demographic changes in the market to the store and the products to be sold.
- *Analyzing the changes in the marketing strategies of the retail organization and the competition:* While working to create the sales forecast, it is necessary to take into consideration the overall strategy to be adopted by the retail organization and by competition.
- *Creating the sales forecast:* After taking into consideration the above-mentioned points, an estimate of the projected increase in the sales is arrived at. This is then applied to various products/ categories to arrive at the projected sales figures.

A sales force thus, an outline of what sales need to be achieved. . It tells what sales are targeted and what revenues are expected from those targets. But it does not give any idea about the inventory levels that would be required. This leads us to the second stage which involves planning for quantities of merchandise that will be required to achieve the sales forecasted in Stage I.

9.6.2   Stage II: Determining the Merchandise Requirements

Planning is essential for providing direction and for serving as a basis for control for any merchandise department. A course of action has to be planned for making available right goods to the consumers at the right place and time. Planning in merchandising is done at two levels:

- *Creation of Merchandise Budget:* It can be top down planning or bottom up planning depending upon the kind and culture of the organization. It is the financial plan which gives an indication of how much to invest in product inventories, stated in monetary terms. Merchandise budget usually comprises of five parts:
  - The sales plan, i.e. how much of each product needs to be sold; this can be department wise, division wise or store wise.
  - The Stock support plan, which tells us how much inventory or stock to achieve those sales.
  - The planned reduction or addition which may be needed to make in case of low or high sales turnover.
  - The planned purchase levels, i.e., the quantity of each product that needs to be procured from the market.
  - The gross margins (the difference between sales and cost of goods sold) that the department, division or store contributes to the overall profitability of the Company.
- The Assortment Plan on the other hand details the merchandise that will be sold in each product category, i.e., the complex mix of products that will be made available to the consumer. For this merchandiser has to develop merchandiser hierarchy for the retail store and accordingly allocate the funds or make budgetary provision for the various products / categories for buying.

9.6.3 Stage III: Merchandise Control – The Open to Buy

The purpose of the concept of Open to Buy is twofold. First, depending on the sales for the month and the reductions, the merchandise buying can be adjusted. Secondly, the planned relation between the stock and sales can be maintained. When used effectively, Open to Buy ensures that the buyer –

1. Limits over and under buying
2. Prevents loss of sales due to unavailability of the required stock
3. Maintain purchases within the budgeted limits
4. Reduces markdowns which may arise due to excess buying

When planning for any given month, the buyer will not be able to purchase the amount equal to the planned stocks for that month. This is due to some inventory already on hand or on order, but not yet delivered.

The Open to Buy amount available to buyer is calculated using the simple formula mentioned below:

Open to Buy = Planned End of Month (EoM) Stock + Projected EoM Stock

Open to Buy is always calculated for current and future periods.

9.6.4 Stage IV: Assortment Planning

When merchandiser has an idea about the amount available to make purchases, he needs to decide on the merchandise or products that need to be bought. This process of deciding upon and then arriving at the quantity of each product or category of merchandise is termed as Assortment Planning. It involves determining the quantities of each product that will be purchased to fit into the overall merchandise plan. Details of colour, size, brands, materials etc. have to be specified. The main purpose of creating an assortment plan is to create a balanced assortment of merchandise for the customer. Type of merchandise that is to be stocked is one of the factors, which affects the assortment planning process. Merchandise may be classified as basic or staple merchandise, fashion, convenience or specialty goods. Seasonal staples are those products, which are in demand only at a particular time of the year, every year. For example, decorative deepaks (lamps) are sold during the Diwali season in India, or decorative ornaments of the Christmas tree before Christmas, umbrellas and raincoats/ rainy shoes in the rainy season.
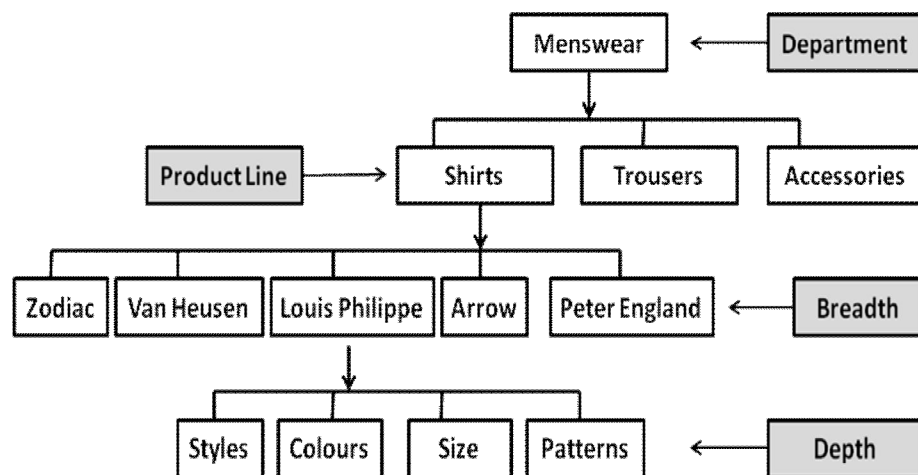

Figure 9.4 : Merchandise Hierarchy of an Apparel Retailer

The retailer's policies with respect to the type of brands stocked and the level of exclusivity to be maintained in the store also affect the merchandise buying decisions. After arriving at the amount of money available to invest in inventory, a merchandiser would have to determine the variety of merchandise. Let us understand the same with an example of a Apparel Retailer demonstrated by Figure 13.4.

After preparing the assortment plan, the merchandiser prepares a range plan

- **The Range Plan:** The range plan is to create a balanced range for each category of products that the retailer chooses to offer. The process of Range planning ensures that the goals of the merchandise plan fall into specific lines, and many a times, the SKUs. Good range planning should essentially take care of the following issues:

  o The number of items/ options available to the customer should be sufficient at all times and should be such that it helps the customer to make a choice.

  o The range planning should ensure that over buying and under buying is limited.

  o Sufficient quantities of the product are available, so that all the stores can be serviced and the product should be available at all stores across various locations.

  A good range plan ensures that the customer is happy with the range that is available to him. The price of the product also plays an important role in the entire process. After having determined the inventories needed to achieve the sales, we need to determine how these sales will be achieved. For example, we have a target of selling 50,000 shirts and thereby generate a 40% margin on the sales. Then we have to decide how many styles and options we should have in store to achieve this result and within these, how many should we buy to achieve the margin mix.

- **The Model Stock Plan:** The last step in merchandising planning is making the Model Stock Plan. The model stock plan gives the precise items and quantities that need to be purchased for each merchandise line. To arrive at the model stock plan, the buyer needs to identify the attributes that the customer would consider while buying the product, then decide on the levels under each attribute and finally allocate the total money available or items to the respective item categories.

The above-mentioned process helps in merchandising management. Every merchandiser knows how complex the merchandise planning process can be. Assortment plans must relate directly to financial plans, space plan, brand strategies and more. These merchandise plans must be accurate down to the local market and store levels. Unfortunately, several factors make comprehensive planning difficult for retailers. Relevant data is hard to access quickly, and it is often located on multiple systems throughout an organization. In addition to that, many retailers struggle to incorporate projected demand into planning efforts. When different planners use their own planning tools and each department, their own processes, consistency will remain elusive and assortments won't be profitable.

Due to these complexities and in the era of information, communication and technology retailers use different types of software for the purpose of merchandise planning. The software used may range from simple Excel sheet to specialized software like Retail Pro, JDA, Epicor, MID Retail, MICROS retail.

9.7 Summary

The success of any retail operation is largely based on retailer's ability to provide the right goods to the customers at the right place and at the right time. It is for this reason that the function of merchandising plays a key role in retail. With the growth of organized retail in the world, this function has gained in significance. The size of the organization, the merchandise to be carried, the type of stores and the organization structure affect the merchandising function. The two key players in this function are the buyer and the merchandiser and they have their own roles and functions to perform. The concept of merchandise planning varies from retailer to retailer. We can say that the process of merchandise planning is influenced by the aims and objectives of the retail organization. The process starts by taking into account the forecasted sales for the season and the budget available for the procurement of the merchandise. Determining the Assortment plan, the range plan and the model stock plan follows.

9.8 Self Assessment Questions

1. Define merchandise?
2. Define merchandise management?
3. What are the factors that affect the function of merchandising in retail?
4. What are the positive and negative characteristics of a buyer's job?
5. Why is merchandise planning a key area of merchandise management?
6. Why is Assortment planning needed?
7. Why is a Model Stock plan established?
8. What is the significance of Open to Buy?

9.9 Reference Books

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- Bajaj, C., Srivastava, N. V., Tuli, R., (2005), 'Retail Management', Oxford University Press
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- Levy, M., Weitz, B. A., 'Retailing Management'.

Unit 10 - Merchandise Pricing

Structure of Unit:

10.0 Objectives

After completing this unit, you would be able to:

- Understand the factors a retailer should consider when establishing pricing objectives and policies

- Describe the differences between the various pricing strategies available to the retailer

- Describe how retailers calculate the various markups

- Understand the importance of markdown management in retailing, and describe some of the errors that cause markdowns

- Understand that the factors affecting determination the right price for a product or service should not be a difficult decision if the retailer has analyzed its market position correctly.

- Predict customer demand with statistical forecasting for retail pricing

- Make the financial analysis required to price merchandise.

10.1 Introduction

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. 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. Beside this, Merchandising helps in the sensible presentation of the products available for sale to entice the customers and make them a brand loyalist. Price plays an important role in retailing as it explains the interrelationship between the objectives of the retail store and the components of the retail mix. A pricing strategy helps the retailers to earn profit and at the same time, benefit the customers.

10.2 What is Merchandise Pricing?

Before knowing Merchandise Pricing, it should be made clear that what is the meaning of Merchandise and Pricing individual.As we have already studied merchandise implies tangible goods, things that one can see and touch and feel. It may be any form of goods which has physical existence. It does not include intangible goods and services, which do not have any physical existence. Merchandising is concerned with the planning, sourcing, buying and arranging of these products and services. It is the coordination of these and other functions that make for a successful retail business. Merchandising is necessary for most types of products and services and is used to describe many aspects of the planning and presenting of a product. Price is the monetary value assigned by the seller to something purchased, sold or offered for sale, and on transaction by the buyer, as their willingness to pay for the benefits the product and channel service delivers. Price is the value placed on what is exchanged for value, for satisfaction and utility and it includes tangible (functional) and intangible (prestige) factors and Pricing is the strategy to determine an appropriate price for goods and services to make them competitive in the market.

Benefits:

Merchandise Pricing plays an important role in retailing as it explains the interrelationship between the objectives of the retail store and the components of the retail mix. This pricing strategy not only designed to help retailers to earn profit but at the same time, benefit the customers. Merchandise Pricing represents the value of goods among potential purchases and for ensuring competition among sellers in an open market economy.

- Marketers need to understand the value consumers derive from a product and use this as a basis for pricing a product and must do this as customer oriented.

- The basic concept/formula to be kept in mind by the merchandiser in determining the prices shall be:

- *Sales - Cost of Merchandise Sold=* ***Gross Profit***

- *Gross profit - Operating Expenses =* ***Net Income***

- Merchandise Pricing is the base for developing an interrelationship between the profit earning for the buyers and utility value for the money invested by the consumers.
  - The pricing of the merchandise shall be determined either on the basis of sales objective, profit objective or the competitive objective.
  - It simplifies consumer decisions and encourages purchases
  - It simplifies buying by limiting cost range
  - It enables wider assortments at best selling price lines
  - It reduces stock figure, increases turnover and decreases markdowns
  - It relates directly to total revenue i.e. TR = Price * Quantity Profits = TR – TC
  - It effects profit directly through price, and indirectly by effecting the Quantity sold, and effects total costs through its impact on the Quantity sold, (i.e. economies of scale)
  - It can use price symbolically i.e. emphasize on quality or bargain.

10.3 Factors Influencing Merchandise Pricing

While determining or setting prices for the merchandise, every merchandiser shall keep some important aspects in his mind. Following are the major factors which influence the merchandise pricing decisions:

- Wholesale Legal Constraints determined by the Government Wholesale costs of merchandise.
- Wholesale costs of the merchandise
- Competition from the other related brands
- Manufacturers in the market
- Handling and selling prices of the merchandise
- Store or warehousing policies
- Nature of goods i.e. whether they are of stable nature or they subject to quick

  market changes due to changing market trends
- Supply and demand of merchandise

10.3.1 Other Factors Affecting Merchandise Pricing

Besides, in order to make merchandise pricing effective, following factors shall also be considered in this manner:

Table 10.1: Factors to be considered for making Merchandise Pricing Effective

Factors	Relevance for Pricing
Goods/ service growth potential	Consider each new pricing on the basis of rapidity of initial sales, maximum sales and length of sales life
Fashion trends	Understand vertical and horizontal fashion trends
Retailer image	Determine the image before pricing through market survey
Target Markets	To evaluate whether the target market or markets are conservative or innovative
Competition	Level of competition plays a big role in determining the price of the goods
Customer Segments	If the customer segment is high class than price shall be quoted high as for them price is the symbol of quality and society image
Responsiveness to consumers	Extra services to the consumers like guarantee and other free services helps the merchandiser to range his product high
Amount of investment	High investments generate high prices, like, a shop in a mall can charge high due to his ambiance in comparison to a street side shop

10.4 Methods of Merchandise Pricing

> ➢ **Cost Plus Pricing Mechanism**

Every organization runs to earn profits and so is the retail industry. Cost plus pricing works on the following principle:

Cost Price of the product+Profit (Decided by the retailer) = Final price of the merchandise

According to cost plus pricing strategy the retailer adds some extra amount to the actual cost price of the product to earn his share of profits. The final price of the merchandise includes the profit as decided by the retailer. Cost plus pricing strategy takes into account the profit of the retailer. Cost plus pricing is an easy way to calculate the price of the merchandise. The increase in the retailer price of the merchandise is directly proportional to the increase in the cost price. The customers, however, do not have a say in cost plus pricing.

Manufacturer Suggested Retail Price (MSRP)

It is also called List Price or Recommended Retail Price. In manufacturer suggested retail pricing strategy the retailer sets the final price of the merchandise as suggested by the manufacturer. The retailer sells his merchandise at a price suggested by the manufacturer.

Condition 1 : The retailer sells the product at the same price as suggested by the manufacturer.

Condition 2 : The retailer sells the merchandise at a price less than what was suggested by the manufacturer - Such a condition arises when the retailer offers "Sale" on his merchandise.

Condition 3 : Retailers initially quote an unreasonably high price and then reduce the price on the customers' request to make them realize that a favour has been done to them. It is condition of Bargain - wherein the customer negotiates with the retailer to reduce the price of the merchandise.

Competitive Pricing

The cut throat competition in the current retail scenario has prompted the retailers to guarantee excellent customer service to the buyers so that they (customers) may prefer them over their competitors. The price of the merchandise is more or less similar to the competitor's but the retailers add on certain attractive benefits for the customers. (Longer payment term, gifts etc.) The retailers ensure that the customers leave their store with a smile to have an edge over the competitors. He tries his level best to offer better services to the customers for a better business in future.

Pricing Below Competition

According to pricing below competition policy the price of the merchandise is kept lesser than what is being offered by the competitors.

Prestige Pricing (Pricing above competition)

According to prestige pricing mechanism, the price of the merchandise is set slightly above the competitors. The retailer can charge higher price than the competitors only under the following circumstances:

- Exclusive Brands at the store.
- Brand image of the store
- Prime location of the retail store
- Excellent customer service
- Merchandise not available at any other store
- Latest Trends

Psychological Pricing

Certain price of a product at which the consumer willingly purchases it is called psychological price. The consumer perceives such prices to be correct. A retailer sets a psychological price which he feels would meet the expectations of the buyers and they would easily buy the merchandise. Eg. Rs.999, Rs.1299, Rs.1599 etc.

> **Multiple Pricing**

According to multiple pricing, the retailer sells multiple products (more than one) for a single price. The retailers combine few products to be sold for a single fixed price, *Like*, 3 Shirts for Rs.1000/- or 3 Perfumes for Rs.100/- and so on.

> **Discount Pricing**

According to discount pricing, the retailer sells his merchandise at a discounted price during off seasons or to clear out his stock, like, Unique Pricing Discounts, Attractive prices discounts, rebates, etc, to bring customers to the store and to maintain him in long run.

> **Price Skimming**

Charge highest price possible that buyers who most desire the product will pay. Generate much needed initial cash flow, cover high R&D costs. Esp. good for limited capacity introductions. Attract market segment more interested in quality, status, uniqueness etc. Good if competition can be minimized by other means, IE, brand loyalty, patent, high barriers to entry etc. Consumers demand must be inelastic.

> **Penetration Pricing**

Price reduced compared to competitors to penetrate into markets to increase sales. Less flexible, more difficult to raise prices than it is to lower them. May use it to follow price skimming. Good as a barrier to entry. Appropriate when the demand is elastic. Use if there is an increase in economies of scale through increased demand.

> **Price bundling**

Offer a product, options, and customer service for one total price. Prevalent in the electrical or electronic sales, include installation etc. May unbundle price, ie, breakdown prices and allow customers to decide what they want to purchase. *Eg:* Fast food industry-Mc Donald's Happy Meal, Econo Meal.

10.5 Interactive Merchandise Pricing Decisions

The decision to price an item at a certain level should incorporate the retailers past decisions in the following seven retail areas:

1. **Merchandise Attributes**
   It depends on the market the retailer is serving;

2. **Location**
   Specifically the stores distance from competitors and customers;

3. **Promotion**
   It is crucial in generating demand, is not independent of price;

4. **Credit and/or Check Cashing availability**
   It can also generate demand and affect pricing levels.

5. **Customer Service levels**
   It affects expenses, which in turn affect price;

6. **Store Image**

It is affected by the way a retailer chooses to price its products;

7. **Legal Constraints**

Both country and state must be considered while determining prices.

While framing Pricing Policy for the merchandise, the merchandiser has to consider even the external environment surrounding his organization along with the internal micro factors of his organization.

These external factors are macro in nature and are almost uncontrollable. They cannot be changed but the prices shall be determined by keeping them in mind as they always interactive with the decision regarding pricing of the merchandise by the organization. Moreover, these factors are considered on the dynamic basis and not on the static basis as they keep on changing from time to time.

Fig.10.2 Interaction of Retailer's Pricing Decisions with other Decisions

10.6 Merchandise Pricing Objectives and Strategies

10.6.1 Merchandise Pricing Objectives

A merchandiser's pricing objectives should be in agreement with its mission statement and merchandising policies. Typical pricing objectives include:

10.6.1.1 Profit-Oriented Objectives

It is expressed in terms of amount or percent change from the previous period. Under this pricing objective, aim of the merchandiser is to maximize profit by setting such price which can yield better and maximum profits in comparison to the profits of the earlier years. It includes two aspects:

a. Target Return - Sets a specific level of profit as an objective, often stated as a percentage of sales or of the retailers capital investment.

b. Profit Maximization - Seeks to get as much profit as possible.

In order to achieve this objective, merchandiser's determine two types of pricing. They are:

118

- Skimming which tries to sell at the highest price possible before settling on a more competitive level.
- Penetration Pricing seeks to establish a loyal customer base before eventually raising its prices.

10.6.1.2 Sales-Oriented Objectives

This objective aims to seek some level of unit sales or market share. The achievement of such objectives does not necessarily guarantee that profits will also increase, but still it maximize the sales which may in turn lead to at least reasonable profits. Thus, it aims mainly towards two aspects while determining the price of the merchandise:

- Market Share
- Cash Flow

10.6.1.3 Status Quo Objectives

Seek to maintain the retailer's current market share position or level of profits or to compete on grounds other than price. Thus, under this objective, pricing is mainly done with the following objectives:

- To maintain market share
- To meet competitors prices
- To achieve price stability
- To maintain public image
- To survive in the market
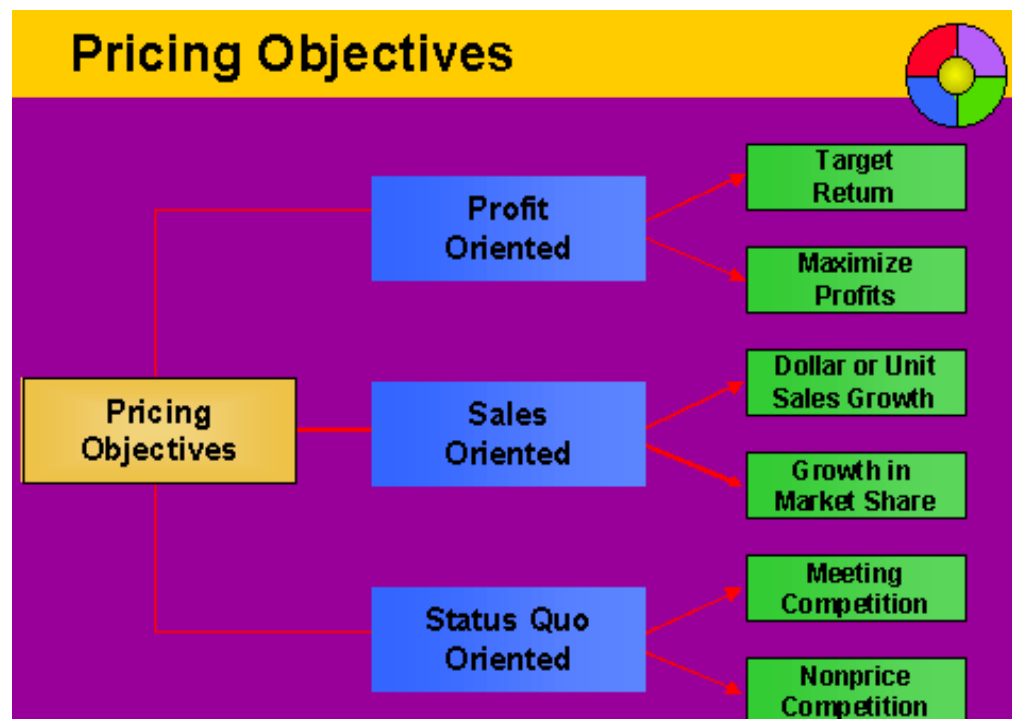
Fig: 10.3 Merchandise Pricing Objectives

➢ **Profit Oriented: Target Return**

Sometimes the vendor sets a specific amount or percentage amount that the price will be offered at in order to make a profit which has been calculated for a specific

purpose. Usually this amount is part of a larger plan involving several product units in a product line

➢ **Profit Oriented: Maximize Profits**

If the Competitive Market is not intense retailer may charge the highest price the market will bear because sometimes one may have an advantage for reasons based on the geographic advantage. Eg.Silk from China.

Sales / Marketing Oriented

Increases Sales Volume or Increases Market Share

➢ **Sustenance Oriented**

If the customer has many choices, and merchandiser barely have the resources to stay or sustain in the market, then he may just charge the cost price. He don't have the resources to survive a price war, and he don't have the ability to claim better quality to charge a higher price.

10.6.2 Merchandise Pricing Policies/Strategies

Pricing policies are rules of action that ensure uniformity of pricing decisions within a retail operation. Retailers pricing policies should reflect the expectations of its target market. It may appear simple, but in fact it is really difficult to effectively price one's merchandise. The pricing strategy should be such that result in fair and appropriate prices.

10.6.2.1 Pricing below the Market

Retailers with such a policy rely on a high volume, generated by low prices, to produce satisfactory profits.

10.6.2.2 Pricing at Market Levels

Most merchants want to be competitive with one another. Competitive pricing is based on a pricing zone, a range of prices for a certain merchandise line that appeals to customers in a particular demographic group. b. The size of a retail store affects its ability to compete on a price basis.

10.6.2.3 Pricing above the Market

Certain market sectors are receptive to high prices because non-price factors are more important to them than price. Following policies can be adopted in this relation:

* *Merchandise Offerings*
   Some consumers are willing to pay higher prices for specialty items, an exclusive line, or unusual merchandise.

* *Services Offerings*
   Service-oriented merchants may be able to develop a loyal group of customers by providing anything from wardrobe counseling to delivery.

* *Convenient Locations*
   The convenient location of some retailers allows them to charge higher prices since consumers' value time.

* *Extended Hours of Operation*
   By remaining open while competitors are closed, some merchants are able to charge above- average prices.

10.6.2.4 Retailer's Specific Pricing Strategies

They should be in accordance with the other components of the stores retail mix:

- **Customary Pricing**

A retailer sets prices for goods and services and seeks to maintain those prices over an extended period of time.

- **Variable Pricing**
Used when differences in demand and cost force the retailer to charge prices in a fairly predictable manner.

- **Flexible Pricing**
 Offering the same products and quantities to different customers at different prices; this is often used in situations calling for personal selling.

- **One-Price Policy**
Charging the same price for an item to all customers and may be used in conjunction with customary or variable pricing.

- **Price Lining**
 Establishing a certain number of price points for each merchandise classification and then purchasing goods that fit into each line. The difference between the price points should be large enough to reflect a value difference to consumers.

10.7 Merchandising Price Discrimination

Normally, Price Discrimination is considered to be illegal as it is associated with biasness on the ground that for the same goods, how can the seller charge different prices from different consumers. But in fact this is not reality. All types of price discrimination are not illegal. **Clayton** has given a legal definition of Price Discrimination, which state these two Primary Objectives:

a. To prevent suppliers from gaining an unfair advantage over their competitors by discriminating among buyers either in the setting of prices or in providing allowances or services.

 b. To prevent buyers from using their economic power to get discriminatory prices from suppliers, to gain an advantage over their own competitors.

10.7.1 Defenses of Price Discrimination: Following are the defenses for Price Discrimination:

- **Cost justification**

Attempts to show that a differential in price could be accounted for on the basis of differences in cost to the seller in the manufacture, sale, and/or delivery arising from differences in the method or quantities involved.

- **Changing market conditions**

Attempts to justify a price differential based on the danger of imminent deterioration of perishable goods or on the obsolescence of seasonal goods.

- **Meeting competition in good faith**

Sometimes a lower price is charged from purchaser either in good faith or in order to meet an equally low price of a competitor, provided that this matched price actually existed and was lawful in itself.

10.7.1 Price Discounts in Merchandise Pricing

Trade Discounts

It is given by a producer to an intermediary for performing certain functions (in terms of % off list prices)

Quantity Discounts

It is provided due to economies of purchasing large quantity to pass cost savings on to the buyer. There are five areas of cost savings i.e., reduced per selling costs, fixed costs decline or remain the same, lower costs from the suppliers of raw materials, longer production runs means no increase in holding costs, shift storage, financing, risk taking functions to the buyer.

Cash Discount

It is given for prompt payment. *For eg:* 2/10 net 30, means 2% discount allowed if payment is made within 10 days, entire balance is due within 30 days, no discount, after that interest will be charged.

Seasonal Discount

It is given for purchasing such goods which are out of season. *For eg:* A person gets a discount of 10% on the price of refrigerators if he purchases it in winters.

Allowances

In order to promote the goods, the merchandisers even offer various types of allowances like trade allowances, promotional allowances, etc.

10.7.2 Advantages of Merchandise Pricing

- Merchandise pricing can stimulate impulse purchases and higher per capita spending.
- Provides support for increasing sale of the goods.
- A good pricing policy helps in developing brand loyalty in the eyes of customers.
- Properly planned merchandise helps the product of the company to hold market in long run.
- On one side, where low prices helps in grabbing large number of customers, on the other side, high prices helps in building image that the goods are of high quality.

10.7.3 Problems of Merchandise Pricing

- Determining price requires lot of market survey which is really hard to do.
- Prices ones set does not last long and have to be changed frequently depending upon various factors.
- Heavy Competitions in the market lead to the determination of such prices which are normally not much beneficial for the merchandiser.
- Various legal constraints have to be taken care of while determining prices.

- Quick and frequent changes in the micro and macro environmental factors are even one of the great problems in determining prices of merchandise.

10.7.4 Suggestions for Merchandise Pricing

- Emphasize value and personal service rather than price;
- Offer attractive ancillary services (home and office delivery, generous return policies, etc.) ;
- Define your market segment or niche and devote energies accordingly;
- Control inventory and streamline to eliminate less profitable areas of business;
- Target advertising and promotions to reach the most likely customers;
- Steer customers to the most profitable aspects of your business;
- Establish business's industry knowledge as an additional resource for customers;
- Build strong relationships with vendors;
- Meet or beat prices of big discounters on selected lead items or services;
- Make intelligent use of price strategies such as price bundling.

10.8 Summary

Marketing the right merchandise at the right place, at the right time, in the right quantities and at the right price, is the base for any merchandise planning in which the price factor plays a crucial role. Merchandise pricing is a strategic process that has an impact on the entire enterprise. It increases sales and margins and increases company performance. An appropriate Merchandise Pricing creates a business workflow encapsulating retail best practices in following ways: Reconcile plans top-down, bottom-up and middle-out to help retailers plan, execute and ensure that financial and merchandise plans work hand-in-hand, Deliver the optimal set of store clusters to retailers for assortment planning and category management, Create optimized local assortments, Predict customer demand with statistical forecasting for retail etc.

Merchandise Pricing is an integrated approach, which provide: **Retail best practices** embedded in the solution and reflected in the retail business workflow and configurable business interface, **Localized assortment optimization** that uses customer preferences to make local assortments a reality, **A recommended plan** approach to develop market for the goods and build its brand image in long run, **Demand forecasting** that gives retailers the ability to develop and implement such prices, based on expected customer demand, not just historical data, **Collection of strong database** for all solutions that plans and facilitates collaboration across departments, reconciles plans, and provides category managers, planners and buyers with access to a common view of information and performance measures across the retail organization, **A system that can scale** to manage large volumes of plans at a fast pace, allowing retail organizations of any size to plan down to the store level as well as across multiple channels.

10.9 Self -Assessment Questions

1. What do you mean by merchandise Pricing? State the factors influencing merchandise pricing.
2. A company wants to offer some discounts in order to promote the sale of its merchandise during the festive season. State the various types of discounts the company can provide in order to grab improved sale during the festive season.
3. "Price Discrimination is normally looked upon as an illegal or biased activity, but it is not always a fact." In order to prove the authenticity of this statement, give the defenses in favour of price discrimination.
4. Write a brief note of merchandise pricing strategies/policies in detail.
5. "Pricing is done by keeping different objectives in mind by the merchandisers." Explain the statement by stating all the objectives of merchandise pricing in brief.
6. Briefly explain the various methods of merchandise pricing.
7. Write a note on 'Interactive Merchandise Price Decisions' in detail.
8. There are various problems, which a merchandiser has to face while pricing his goods. State the major problems faced by the merchandisers. Also give suggestions to overcome the problems in pricing of merchandise.

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Unit - 11: Location Planning

Structure of Unit

11.0 Objectives

After completing this unit, you would be able to:
- Understand the importance of location analysis in retailing;
- Classify the types of Retail Locations;
- Evaluate the location based on the factors affecting choice of location;
- Theories of Retail Location;

11.1 Introduction

The choice of a store location has a profound effect on the entire business life of a retail operation. A bad choice may all but guarantee failure, a good choice success. This aid takes up site selection criteria, such as retail compatibility and zoning, which the mall storeowner manager must consider after making basic economic, demographic, and traffic analyses. It offers questions the retailer must ask (and find answers to) before making the all important choice of store location. In picking a store site, many storeowners believe that it's enough to learn about the demographics ("people information" like age, income, family size, etc.) of the population, about the kind of competition they'll be facing, and about traffic patterns in the area they're considering. Beyond a doubt these factors are basic to all retail location analysis. Once you've spotted a tentative location using these factors, however, you've only done half the job. Before you make a commitment to moving in and setting up, you must carefully check several more aspects of the location to help insure your satisfaction with -- and most importantly your success at - the site you've chosen.

11.2 Types of Retail Locations

Different types of retail locations are as follows:

11.2.1 Freestanding /Isolated store:

- Where there are no other outlets in the vicinity of the store and therefore store depends on its own pulling power and promotion to attract customers.

- A biggest advantage for freestanding stores is that there is no competition around.

- An isolated store is freestanding, not adjacent to other stores. This type of location has several advantages, including no competition, low rent, flexibility, road visibility, easy parking, and lower property costs. There are also distinct disadvantages: difficulty in attracting traffic, no variety for shoppers, no shared costs, and zoning restrictions.

- Gas stations, convenience stores, hotels and fast food restaurants on highways, many a times operate as freestanding locations.

11.2.2 Part of Business District/Centers (unplanned Business Districts):

- A retail store can also be located as a part of a business district. Or we can refer this as unplanned business centers

- A business district is place of commerce in a city which developed historically as the center of trade and commerce in the city or town.

- A business districts can be a central, secondary or a Neighborhood business district.

- A Central business District **CBD** is the main center of commerce and trade in the city. (high land rates , intense development)

- An unplanned business district is a shopping area where two or more stores are located together or nearby. Store composition is not based on long-range planning. Unplanned business districts can be broken down into four categories: central business district (CBD), secondary business district(SBD), neighborhood business district (NBD), and string.

- An unplanned business district generally has such points as these in its favor: variety of goods, services, and prices; access to public transit; nearness to commercial and social facilities; and pedestrian traffic. Yet, this type of location's shortcomings have led to the growth of the planned shopping center: inadequate parking, older facilities, high rents and taxes in popular CBDs, discontinuity of offerings, traffic and delivery congestion, high theft rates, and some declining central cities.

11.2.3 Part of a Shopping Center (Planned Shopping Centers)

- A shopping center has been defined as " a group of retail and other commercial establishments that is planned , developed, owned and managed as a single property"

- The basic configuration of a shopping centre is a "Mall" or Strip centre.

- A mall is typically enclosed and climate controlled. A walkway is provided in front of the stores.

- A strip centre is a row of stores with parking provided in the front of the stores.

- A planned shopping center is centrally owned or managed and well-balanced. It usually has one or more large (anchor) stores and many smaller stores. During the past several decades, the growth of the planned shopping center has been great. This is due to extensive goods and service offerings, expanding suburbs, shared strategy planning and costs, attractive locations, parking facilities, lower rent and taxes (except for most regional shopping centers), lower theft rates, popularity of malls (although some people are now bored with shopping centers), and lesser appeal of inner-city shopping. The negative aspects of the planned center include operations inflexibility, restrictions on merchandise lines carried, and anchor store domination. There are three shopping center forms: regional, community, and neighborhood.

  However, in a place like Mumbai, where travel from one point in the city to the other takes up a fair amount of time, customers may not really be willing to travel large distances to visit just one store. The retailer also needs to keep in mind the increasing cost of petrol and diesel which, is also a factor taken into consideration by the customers. It is necessary that the location of the store and the catchment area for the store be defined keeping in mind the distance that the customer would be willing to travel for a particular product or service.

Activity A

Move in your locality and find out the various types of retail locations. Analyze the reasons behind establishing the stores at the respective locations.

11.3 Importance of Location Analysis

Over the decades, the importance of location of retail shops has been highlighted by many researchers, academicians and practitioners to understand the importance of retail location in achieving success. In today's highly competitive environment, choosing the correct site location for a retail outlet ranks amongst the top factors in determining that outlet's success or failure. Location is very important because:

- Location is typically prime consideration in customer's store choice.

- Location decisions have strategic importance because they can help to develop sustainable competitive advantage.

- Location decisions are risky – whether to invest or lease.

Selecting an optimum location for a new investment is a critical issue in all industries, regardless of the size of the company, or the type of operation that it is planning to establish. Being in the right location is as important for the automotive or electronics **Original Equipment Manufacturer (OEM)** that is considering where to establish a new billion-dollar manufacturing plant, as it is for the biotechnology start-up considering where to locate its clinical trials or

development operations. Although the specific criteria may vary across companies and industries, the overall process for selecting a new location tends to be similar, and this process has been refined over the years.

However, even the best workforce cannot compensate for inadequate telecommunications infrastructure that requires companies to invest millions of dollars in dedicated lines and redundancies. Similarly, some cities with a large and affordable skill pools, lack modern commercial real estate required to house sophisticated IT operations. Local political conditions and business practices in some locations may make setting up and running a business a costly and frustrating experience.

There are few "short-cuts" to finding the right location, and although all eventualities cannot always be considered in advance, a basic location analysis should adhere to the following basic principles in order to increase the probability of yielding the optimal result.

Needs
Requirements should be accurately defined and articulated in a manner that reflects the company's requirements. What skills do we need? How can our requirements be measured to some degree of accuracy? Are we considering all the important aspects of our business? How can we choose location criteria that anticipate changing conditions in the investment environment or our own business?

Priorities
Defined needs should be weighted to reflect the specific preferences of the company. This requires a process that is both methodologically sound while generating consensus from key stakeholders regarding project priorities. Simply scoring criteria on a scale of 1 to 10 or using "off-the-shelf" weightings that reflect the preferences of other companies do not adequately capture an individual project's specific situation and requirements.

Compromise
Expectations regarding project deliverables should be realistic. Companies tend to want the "perfect" location – skilled labor, low costs, state-of-the art infrastructure and an accommodating government and business environment. The bad news is that the perfect location does not exist – there are always trade offs, and companies must be clear about how much of "factor A" (say costs) they are willing to give up for a little more of "factor B" (say ease of doing business). Expectations regarding timing should also be realistic.

Site Visit
In the age of online databases and freely available country rankings, it is easy to underestimate the difficulty of obtaining reliable and accurate data. There are no online databases comparing the graduate output of various universities across India. Neither is there a reliable source of labor cost information for IT programmers in central and eastern European cities. Information of this type can only be obtained through thorough primary research, which involves gathering accurate data through conversations with people on the ground that are familiar with the relevant investment conditions. Do not underestimate the value of a site visit and conversations with other experienced business people conducting

business in that location. For example, local business groups, professional associations and chambers of commerce.

Location Specific Data

Finally, the analysis should always focus on cities and not countries. Although country level information may be helpful with respect to factors such as business regulations, tax and overall industry size, the real factors affecting the ability to set up and operate a business vary significantly at the city level. As indicated above, using country level data to compare countries such as India or Russia is unrealistic and blurs the often immense differences in costs and conditions between cities. Even within countries as seemingly small or homogenous as the Philippines, labor costs can vary significantly across cities. One reason why so many studies tend to compare countries rather than cities is that accurate information on cities is simply more difficult to find.

11.4   Retail Location Theories

There are three underlying theories which help in determining the most suitable location for retail.

11.4.1 Retail Gravity theory

It suggests that there are underlying consistencies in shopping behavior that yield to mathematical analysis and prediction based on the notion or concept of gravity.

Huff's Gravity Model

This is based on the premise that the probability a given customer will shop in a particular store or shopping center becomes larger as the size of store or center grows and distance or travel time from customer shrinks

Huff's Law is based on the assumptions that:

- The proportion of consumers patronizing a given shopping area varies with the distance from the shopping area

- The proportion of consumers patronizing various shopping areas varies with the breadth and depth of merchandise offered by each shopping area

- The distance that consumers travel to various shopping areas varies for different types of products purchased

- The "pull" of any given shopping area is influenced by the proximity of competing shopping areas

11.4.2 Saturation Theory

It examines how the demand for goods and services of a potential trading area are being served by current retail establishments in comparison with other potential markets

11.4.3 Index of retail saturation (IRS)

This is the ratio of demand for a product divided by available supply

- Demand for a Product is the obtained by households in the geographic area multiplied by annual retail expenditures for a particular line of trade per household

- Supply is the square footage of retail facilities of a particular line of trade in a geographical area

$$IRS = (H \times RE)/RF$$

Where:

IRS is the index of retail saturation

H is the number of households in the area

RE is the annual retail expenditures for a particular line of trade per household in the area

RF is the square footage of retail facilities of a particular line of trade in the area (including square footage of the proposed store)

11.4.3 Buying power index (BPI)

Is an indicator of a market's overall retail potential and is composed of the weighted measures of effective buying income retail sales, and population size.

Example:

BPI = 0.5(the area's percentage of effective buying income) + 0.3(the area's percentage of retail sales) + 0.2(the area's percentage of population).

11.5 Process of Choosing a Retail Location

Choosing the right location for Retail it is important to select the region in which you want to start your operations. The following steps have to be followed.

1. Identifying the market in which to locate the store. (Selecting City)
2. Evaluate the demand and supply within that market. i.e. determine the market potential. Identify the most attractive sites. (Selecting Area)
3. Select the best site available. (Selecting Site)

11.5.1 Selecting City

If you are going to relocate in another city, naturally you consider the following factors:

- Size of the city's trading area.
- Population and population trends in the trading area.
- Total purchasing power and the distribution of the purchasing power.
- Total retail trade potential for different lines of trade.
- Number, size, and quality of competition.
- Progressiveness of competition.

11.5.2 Selecting Area

In choosing an area or type of location within a city you evaluate factors such as:

- Customer attraction power of the particular store and the shopping district.
- Quantitative and qualitative nature of competitive stores.

- Availability of access routes to the stores.

- Nature of zoning regulations.

- Direction of the area expansion.

- General appearance of the area.

11.5.3 Selecting Site

Pinpointing the specific site is particularly important. In central and secondary business districts, small stores depend upon the traffic created by large stores. Large stores in turn depend on attracting customers from the existing flow of traffic. (However, where sales depend on nearby residents, selecting the trading area is more important than picking the specific site.) Obviously, you want to know about the following factors when choosing a specific site:

- Adequacy and potential passing the site.

- Ability of the site to intercept traffic en route from one place to another.

- Complementary nature of the adjacent stores.

- Adequacy of parking.

- Vulnerability of the site to unfriendly competition.

- Cost of the site.

Activity B

Based on a primary research find out the best site for opening up a retail store in your city keeping the above mentioned points in consideration.

11.6 Factors Affecting the Location Planning

For almost all sizable corporations, the evaluation of proposed business site includes a systematic consideration of its cost and benefits relative to the alternatives.

Companies thinking about the capital appropriations requested for the site, typically include a raft of figures and qualitative considerations. As much as can be quantified is – construction or purchase/renovation costs, equipment costs, labor and fringe benefit costs, tax systems, exchange rates, working capital requirements such as inventories, materials, and accounts receivable, freight in and freight out expenses.

Even after these factors have been taken into account, the direct financial differences between qualifying sites may be insignificant, which means that intangible or qualitative factors may sway the final decision.

Often what makes the location decision uncomfortable is not the final steps of evaluation, but rather the beginning steps of the process to locate the potential site. A site selection checklist is a useful device. It suggests many factors which could have a bearing on the location decision.

Several factors that influence location positioning include the location of raw materials, proximity to the market, climate, and culture. Models for evaluating whether a location is best for an organization consist of cost-profit analysis for locations, the center of gravity model, the transportation model, and factor rating.

131

- **Accessibility, Visibility and Traffic**

  A lot of traffic should not be confused for a lot of customers. Retailers want to be located where there are many shoppers but only if that shopper meets the definition of their target market. Small retail stores may benefit from the traffic of nearby larger stores.

  - How many people walk or drive past the location.

  - Is the area served by public transportation?

  - Can customers and delivery trucks easily get in and out of the parking lot?

  - Is there adequate parking?

  Depending on the type of business, it would be wise to have somewhere between 5 to 8 parking spaces per 1,000 square feet of retail space.

  When considering visibility, the location should be evaluated from the customer's view point. If the store be seen from the main flow of traffic, if the hoardings or signboards be easily seen, should be considered. In many cases, the better visibility the retail store has, the less advertising is needed. A specialty retail store located six miles out of town in a free standing building will need more marketing than a shopping store located in a mall.

- **Competition and Neighbours**

  Other area businesses in the prospective location can actually help or hurt the retail shop. It should be determined if the types of businesses nearby are compatible with proposed retail store. For example, a high-end fashion boutique may not be successful next door to a discount variety store. It should be placed next to a nail or hair salon and it may do much more business.

- **Location Costs**

  Besides the base rent, all costs involved should be considered when choosing a retail store location.

  - Who pays for lawn care, building maintenance, utilities and security?

  - Who pays for the upkeep and repair of the heating/air units?

  - If the location is remote, how much additional marketing will be required so that the customers can find the retail store?

  - How much would be the average utility bill?

  - Will any repairs be needed to be made by the retailer, like painting, remodeling etc.?

  - Will the retailer be responsible for property taxes?

  The location that can be afforded now and what one can afford in the future would vary. It is difficult to create sales projects on a new business, but one way to get help in determining how much rent one can pay is to find out what sales similar retail businesses are making and how much rent they're paying.

- **Personal Factors:** Personal factors may include personality of the retailer, the distance from the shop to home and other personal considerations in case he work for in his store. If one spends much of the time traveling to and from work, the commute may overshadow the exhilaration of being ones own boss. Also, many restrictions placed on a tenant by a landlord, Management Company or community can hamper a retailer's independence.

- The store must generate enough revenue per square foot to cover the cost of rent; insurance; any applicable parking fees; any applicable sprinkler, trash or sewage fees; any applicable taxes; any heating, ventilating and air conditioning (HVAC) costs; any common are a maintenance (CAM) costs; and the wages of employees etc.

- In addition to covering costs, it is necessary for the store to turn a profit within a reasonable amount of time in order to make the venture worthwhile and to justify the tremendous investment made by owners and managers. A thorough marketing analysis and solid location strategy will position the new outlet for success, both financially/logistically as well as in relation to competitors

  The main factors that affect location decisions include regional factors, community considerations, and site-related factors. Community factors consist of quality of life, services, attitudes, taxes, environmental regulations, utilities, and development support.

11.7 Evaluating Location Alternatives

There are three specific analytical techniques available to aid in evaluating location alternatives:

1) Location Cost-Volume-Profit Analysis:

The Cost-Volume-Profit (CVP) Analysis can be represented either mathematically or graphically. It involves three steps: 1) For each location alternative, determine the fixed and variable costs, 2) For all locations, plot the total-cost lines on the same graph, and 3) Use the lines to determine which alternatives will have the highest and lowest total costs for expected levels of output.

Additionally, there are four assumptions one must keep in mind when using this method

- Fixed costs are constant.
- Variable costs are linear.
- Required level of output can be closely estimated.
- There is only one product involved.

Total cost = FC = v(Q)

where FC=Fixed Cost, v=Variable Cost per Unit, Q=Number of Units (Also shown below but not in the same format)

2) Factor Rating

This method involves qualitative and quantitative inputs, and evaluates alternatives based on comparison after establishing a composite value for each alternative. Factor Rating consists of six steps:

- Determine relevant and important factors.

- Assign a weight to each factor, with all weights totaling 1.00.

- Determine common scale for all factors, usually 0 to 100.

- Score each alternative.

- Adjust score using weights (multiply factor weight by score factor); add up scores for each alternative.

- The alternative with the highest score is considered the best option. Minimum scores may be established to set a particular standard, though this is not necessary.

3) Center of Gravity Method

This technique is used in determining the location of a facility which will either reduce travel time or lower shipping costs. Distribution cost is seen as a linear function of the distance and quantity shipped. The Center of Gravity Method involves the use of a *visual map* and a *coordinate system*; the coordinate points being treated as the set of numerical values when calculating averages. If the quantities shipped to each location are *equal*, the center of gravity is found by taking the averages of the *x* and *y* coordinates; if the quantities shipped to each location are *different*, a weighted average must be applied (the weights being the quantities shipped).

There are many factors that contribute to a retail store relocating. Some of the reasons include expanding the market and diminishing resources. For an existing company to relocate, they must weigh their options when planning to relocate elsewhere. They can expand their existing facility, add new ones and keep their existing facilities open, move to another location and shut down one location, or keep things the way they are and not do anything. Globalization has led many companies to set up operations in other countries. Two factors that make relocation appealing are advances in technology and trade agreements. By going global, companies will expand their markets and be able to cut costs in labor, transportation, and taxes.

11.8 Summary

The choice of a store location has a profound effect on the entire business life of a retail operation. A bad choice may all but guarantee failure, a good choice success. This aid takes up site selection criteria, such as retail compatibility and zoning, which the small store owner manager must consider after making basic economic, demographic, and traffic analyses. It offers questions the retailer must ask (and find answers to) before making the all important choice of store location. The first step in choosing a retail business location takes place in one's head. Before one does anything else, define the type of business in the broadest terms

and determine the long-term objectives. This exercise helps later in choosing a retail location. In picking a store site, many storeowners believe that it's enough to learn about the demographics ("people information" like age, income, family size, etc.) of the population, about the kind of competition they'll be facing, and about traffic patterns in the area they're considering. Beyond a doubt these factors are basic to all retail location analysis and once they have been spotted, a tentative location using these factors, one has done half the job. Before a commitment is made to move in and set up, one must carefully check several more aspects of the location to help insure satisfaction and most importantly sure success at - the site one has chosen.

11.9 Self Assessment Questions

1. What are the important factors to be considered for finalizing retail store location?
2. What are the steps involved in selecting the best location for retail store?
3. What are the implications of various Theories in Retail Location analysis?
4. Write short note on Retail Store Relocating

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Unit 12 - Store Layout and Design

Structure of Unit

12.0 Objectives

After completing this unit, you would be able to:
- Understand the meaning of layout
- Know different types of store layout
- Understand the meaning of store design
- Know the different types of store design

12.1 Introduction

Organizations in today's fast changing environment face intense competition. Store Layout is well thought out to provide the best exposure possible. They are designed to create an attractive image for consumers. Both store layout and design help to create an image of the retail store. The image of the store not only attracts customers, but it also causes them to purchase goods while shopping there.

12.2 Store Image

Store Image is the overall perception; the consumer has of the store's environment. Retail store image has been shown to play an important role in store patronage, and it is widely accepted that psychological factors have a significant role in store image formation. It has the following objectives:

- Serves a critical role in the store selection process

- Important criteria include cleanliness, labeled prices, accurate and pleasant checkout clerks, and well-stocked shelves

- The store itself makes the most significant and lasting impression
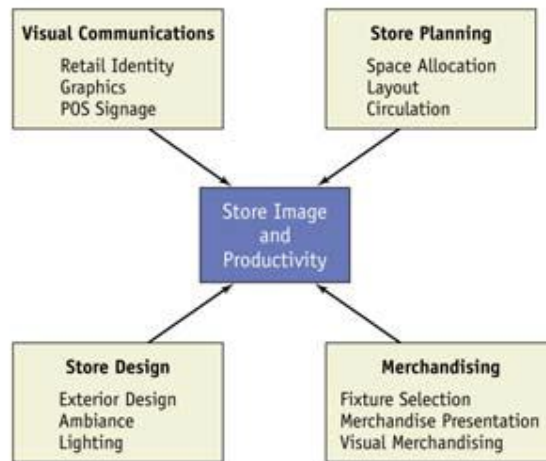
Figure 12.1 : Elements of Store Image

The ingredients that contribute to a store's image include:

- general ambience created by the surroundings
- product range offered by the store
- the store's layout and design
- product placement
- interior design, lighting and decor
- location of the store
- the store's market position
- Advertisements and promotional activities.
-

12.2 Store Layout

Store layout is the physical location of various departments that facilitate shoppers in the retail store. It is a plan to use optimum use of space. A store's layout displays the overall image of the store and creates the perception that customers have about the store's environment. The layout decisions are essentially about utilization of space. A typical layout divides a store into two different kinds of space:

1) **Selling Space** – assigned for interior displays, product demonstrations, sales transactions and customer checkouts

2) **Non Selling Space** – It can be further divided into:

- **Functional Space / Back Room**- allocated to back office and maintenance services
- **Merchandising Space** – allocated to merchandise inventory
- **Personnel Space** – assigned to store employees for lockers, lunch breaks, and restrooms

- **Customer Space** - assigned to service areas for the comfort and convenience of the customer, including a café or food court, dressing rooms, lounges, recreation areas for children and belonging storage facilities

Objectives of store layout includes:

- Implementation of desired image
- Enhancing the efficiency of store oprations
- Maximisation of sales revenue
- Prevention of merchandise shrinkage
- Utilizing energy (water, electricity etc.) efficiently

12.3 Types of Store Layout

The store Layouts may be categorized into three basic types :

12.3.1 Circulation Free Flow Layout

Fixtures and merchandise are grouped into free-flowing patterns on the sales floor. It is suitable when there is no defined customer traffic pattern. It works best in small stores (under 5,000 square feet) and store deals in merchandise of the same type, such as fashion apparel. But if there is a great variety of merchandise it fails to provide cues like where one department has stopped and another had started.

Advantages of Free Flow Layout are:

1. Allowance for browsing and wandering freely
2. Increased impulse purchases
3. Visual appeal
4. Flexibility

Disadvantages of Free Flow Layout are:

1. Loitering is encouraged
2. Possible confusion
3. Waste of floor space
4. Costly affair
5. Difficulty in cleaning

The Disney Store's effective use of the Free--Flow Design

Approximately 250 million consumers visit Disney's entertainment retail outlets each year. New store designs showcase merchandise in an engaging and contemporary fashion, keeping pace with evolving retail trends. Technological elements - including a front-of-store media wall that engages guests with Disney programming, and interactive kiosks - setting the stage for the Disney Store in the 21st century.
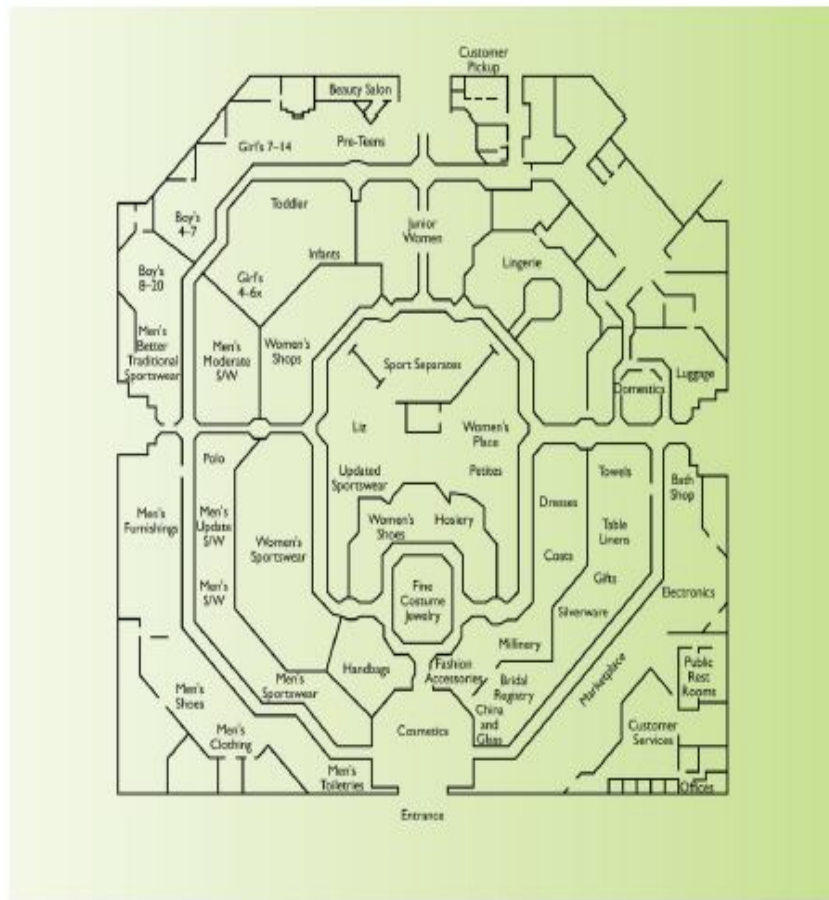
Figure 12.2 Free Flow Layout

12.3.2 Grid Layout

In Grid Layout the counters and fixtures are placed in long rows or ''runs,'' usually at right angles, throughout the store. These are best used in retail environments in which majority of customers shop the entire store merchandise. Most familiar examples are supermarkets and drugstores

Advantages of Grid Layout are:

1. Low cost

2. Customer familiarity

3. Merchandise exposure

4. Ease of cleaning

5. Simplified security

6. Possibility of self-service

Disadvantages of Grid Layout are:

1. Plain and uninteresting

2. Limited browsing

3. Stimulation of rushed shopping behavior

4. Limited creativity in decor

5. Can be confusing and time consuming
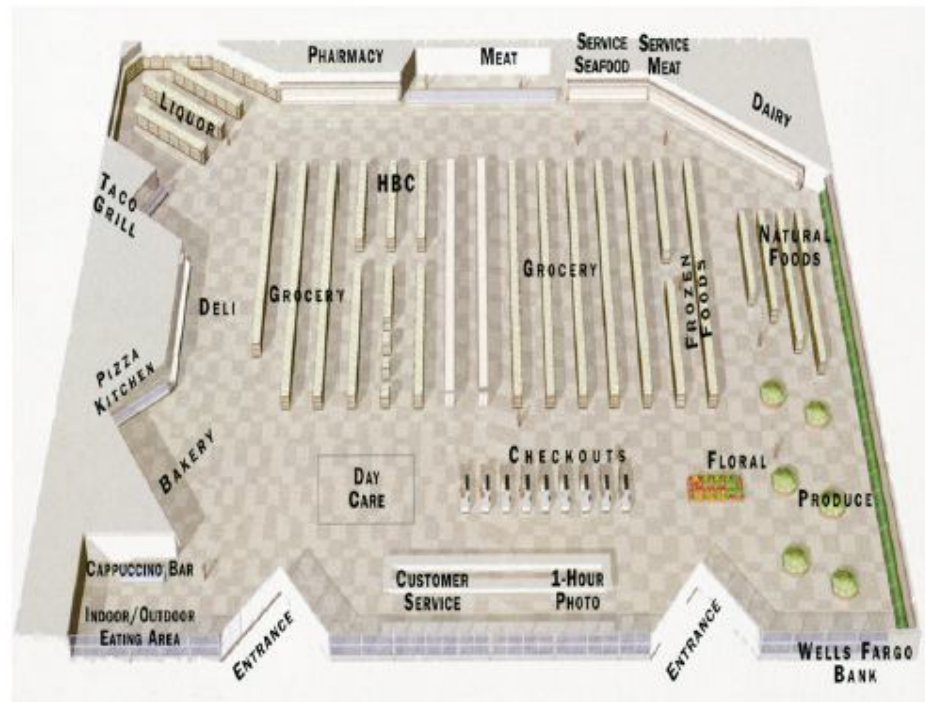
Figure 12.3 : Grid Layout

12.3.3. Loop or Racetrack Layout

In this layout a major customer aisle begins at the entrance, loops through the store—usually in the shape of a circle, square, or rectangle—and then returns the customer to the front of the store.

It exposes shoppers to a great deal of merchandise as they follow a perimeter traffic aisle with departments on the right and left of the circular, square, rectangular or oval racetrack. This layout divides the selling floor into shops within the store. It is heavily used by medium-sized specialty stores ranging from 2,000 – 10,000 square feet.

Advantages of Loop Layout are:

- Facilitates impulse buying.
- Overhead directional signs and departmental graphics provide visual cues to customers to locate other departments.

Disadvantage of Loop Layout is:

- It is costlier to design, construct and maintain
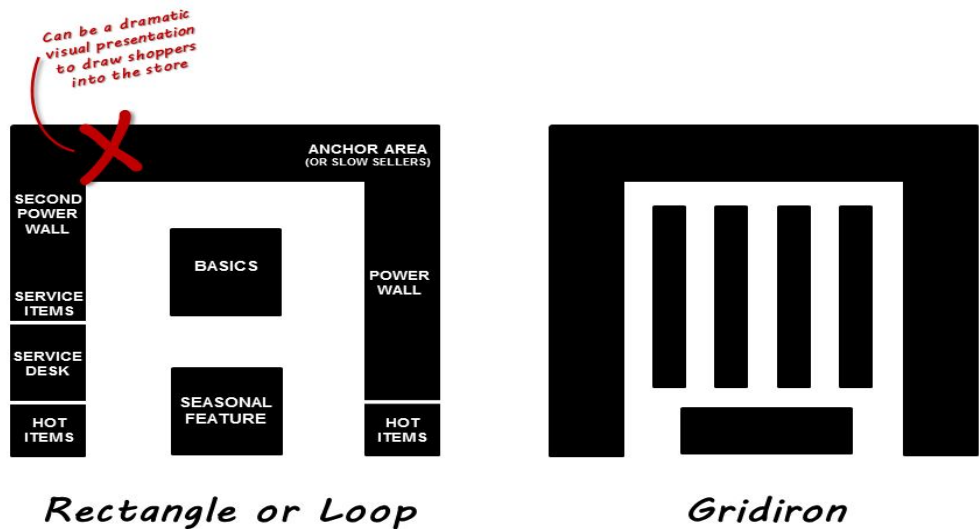
Figure 12.4 : Loop Layout

12.3.4 Spine Layout

A single main aisle runs from the front to the back of the store, transporting customers in both directions, and where on either side of this spine, merchandise departments using either a free-flow or grid pattern branch off toward the back
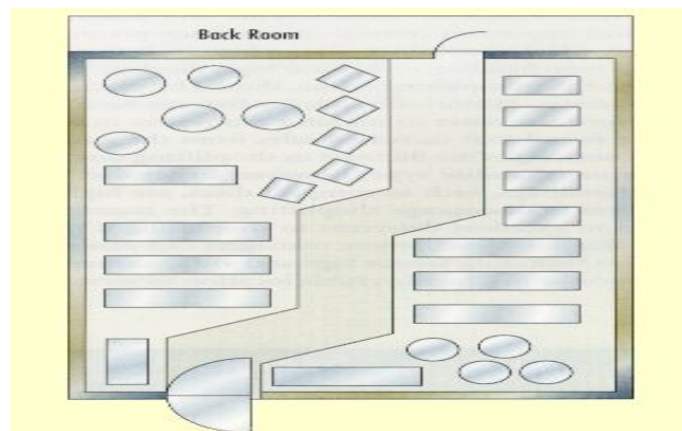
Figure 12.5 : Spine Layout

12.4 Store Layout Considerations

- High margin items should be placed in high traffic areas.

- High demand items should be placed in low traffic areas.

- Complementary items should be placed near each other.

- Seasonal needs should be considered.

- Items that need frequent restocking should be placed near the storerooms or cash registers.

- Larger departments should be placed in lower traffic placed in lower traffic areas.

- Shopping behaviour and operational considerations should be recognized.

141

12.5 Store Design

Retail design is a creative and commercial discipline that combines several different areas of expertise together in the design and construction of retail space. Retail design is primarily a specialized practice of architecture and interior design, however it also incorporates elements of interior decoration, industrial design, graphic design, ergonomics, and advertising.

Retail design is a very specialized discipline due to the heavy demands placed on retail space. Because the primary purpose of retail space is to stock and sell product to consumers, the spaces must be designed in a way that promotes an enjoyable and hassle-free shopping experience for the consumer. For example, research shows that male and female shoppers who were accidentally touched from behind by other shoppers left a store earlier than people who had not been touched and evaluated brands more negatively. The space must be specially-tailored to the kind of product being sold in that space; for example, a bookstore requires many large shelving units to accommodate small products that can be arranged categorically while a clothing store requires more open space to fully display product.

Retail spaces, especially when they form part of a retail chain, must also be designed to draw people into the space to shop. The storefront must act as a billboard for the store, often employing large display windows that allow shoppers to see into the space and the product inside. In the case of a retail chain, the individual spaces must be unified in their design.

Prevention of losses due to merchandise pilferage is a major cause of concern for all retailers. This issue should be addressed at the initial stage of store design. The retailer can use many electronic security systems like CCTV and EAS and incorporate their placement ij the store design for the prevention of such losses. Thus, by appropriately integrating the various elements of store design (both exterior and interior), a retailer can create an excellent image of itself in the target customer's mind.

12.5.1 Objectives of a Good Store Design
A good store design should be:
- Consistent with retailer's image, positioning, strategy
- Positive influence on purchase behavior
- Sales-per-square-foot (most common, racetrack and boutique layout)
    a. Sales-per-linear-foot (e.g., supermarkets, drug stores, etc. with long gondolas in grid layout)
    b. Sales-per-cubic-foot (e.g., wholesale clubs with multiple layers of merchandise)
- Flexible
- Cost effective – space productivity

12.5.2 Importance of Store Design
Store design and layout tells a customer what the store is all about and it is very strong tool in the hands of the retailer for communicating and creating the image of the store in the mind of the customers.

- The design and layout of the store is a means of communicating the image of the retail store.

- The environment which it creates in the retail store is a combination of the exterior look of the store, the store interiors, the atmosphere in the store and the events, promotions and the themes.
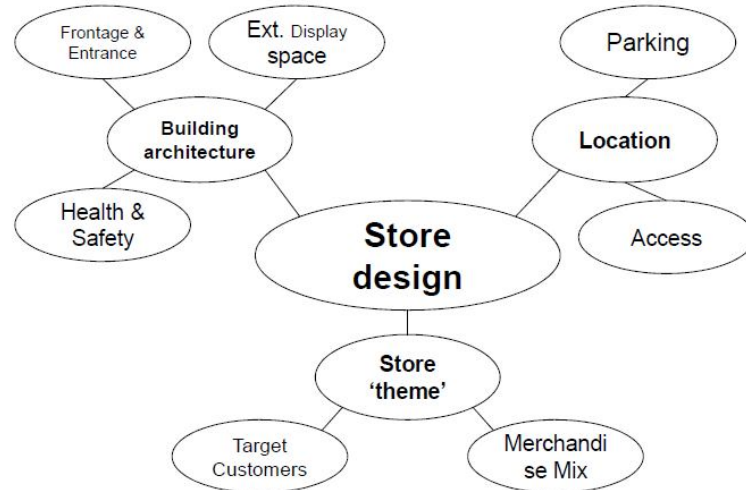

Figure 12.6 : Elements of Store Design

- The overall look of a store and the series of mental pictures and feelings it evokes within the beholder.

- For the retailer, developing a powerful image provides the opportunity to embody a single message, stand out from the competition and be remembered.

- Opportunity for competitive advantage and increased sales

- Store as a "good story" – a beginning, middle, end

  o Entrance sets up the story – creates expectations, • contains promises, entices, hints, teases

  o Inside the store is the middle of the story

    ▪ should start slow (uncluttered) to allow consumers to orient themselves

    ▪ should lead customers on a journey of discovery, using layout, lighting, visuals, other atmospherics

- Checkout area is the store's climactic ending

12.5.3 Interior and Exterior Store Design

12.5.3.1 Exterior Store Design
It Includes:
- Location
- Parking
- Ease of access
- The building architecture
- Health and safety standards
- Store windows, lighting

143

Exterior (Storefronts) must:

- Clearly identify the name and general nature of the store
- Give some hint as to the merchandise inside
- Includes all exterior signage
- In many cases includes store windows – an advertising medium for the store – window displays should be changed often, be fun/exciting, and reflect merchandise offered inside

12.5.3.2 Interior Store Design

It includes:

- Fixtures & Types
- o Straight Rack – long pipe suspended with supports to the floor or attached to a wall
- o Gondola large base with a vertical spine or wall fitted with sockets or notches into which a variety of shelves, peghooks, bins, baskets and other hardware can be inserted.
- o Four-way Fixture – two crossbars that sit perpendicular to each other on a pedestal
- o Round Rack – round fixture that sits on pedestal
- o Other common fixtures: tables, large bins, flat-based decks

- Atmospherics: The design of an environment via visual communications
  - o Lighting: Important but often overlooked element in successful store design
    - Highlight merchandise
    - Capture a mood
    - Level of light can make a difference
    - Blockbuster
      - o Fashion Departments
  - o Colour: Can influence behaviour
    - Warm colours increase blood pressure, respiratory rate and other physiological responses – attract customers and gain attention but can also be distracting
    - Cool colours are relaxing, peaceful, calm and pleasant, effective for retailers selling anxiety-causing products
  - o Sound & scent
    Sound
    - o Music viewed as valuable marketing tool
    - o Often customized to customer demographics - AIE
    - o Can use volume and tempo for crowd control
  - o Scent
    - o Smell has a large impact on our emotions
    - o Victoria Secret, The Magic Kingdom, The Knot Shop
    - o Can be administered through time release atomizers or via fragrance-soaked pellets placed on light fixtures

Interior Store Design must:
- **Get customers into the store** (store image)
  - o As it serve a critical role in the store selection process
  - o As the store itself makes the most significant and last impression

144

- **Convert them into customers buying merchandise once they are inside the shop** (space productivity)
  - o As more merchandise the customers are exposed to that is presented in an orderly manner, the more they tend to buy
  - o As the retailers focusing more attention on in-store marketing – marketing expenditure in the store, in the form of store design, merchandise presentation, visual displays, and in-store promotions, would lead to greater sales and profits

12.5.3 Retail Lighting Design

A well lit retail environment makes for a positive shopping experience and encourages customers to make purchase decisions. Think of lighting as you would any other marketing or sales promotion tool in your store. It should:
- Attract and guide customers into and through the store.
- Provide visual comfort
- Lead customers through merchandise areas safely and effectively
- Help them find and evaluate merchandise
- Call attention to specific merchandise and reinforce merchandising themes.
- Initiate a purchase

Good retail lighting design is a balance between the following three areas:
- Human Needs
  - o Visibility
  - o Task performance
  - o Visual comfort
  - o Safety
- Environmental and Economic Issues
  - o Cost of lighting system ownership
  - o Energy costs
  - o Sustainability
- Architectural
  - o Lighting systems complement building design

Regardless of the space or area being illuminated, the design scheme usually employs a "layered" approach, combining the three basic categories of lighting:
- General (also called ambient lighting),
- Local (also called accent or task lighting)
- Decorative

Lighting solutions for each store will vary depending on the target market, store concept and functional needs of the space.
- ➢ **Low End** (e.g. discount/overstock warehouses, mass merchandisers, wholesale clubs, supermarkets, "big box" retailers) they typically take a singular approach to lighting with symmetrically placed luminaries for uniform illumination.
- Sales assistance: minimal.
- Products easily recognizable, viewed, and evaluated.
- Goals: come in, easily see, find and proceed to checkout.
- Minimal quantity and types of display fixtures and furnishings; in the case of big box stores, everything is on H-frame racks.
- Usually employees' one type of light source for uniform luminance throughout the store.

Its Lighting System:

- High bay: typically T8 and T5 fluorescent systems for general illumination and high brightness at the ceiling level. Some applications (e.g. discount warehouses and clubs) use metal halide systems
- Medium and low bay: typically recessed fluorescent lensed or parabolic louvered troffers to minimize glare.
- Daylight harvesting is possible by pairing natural light from skylights with T8 and T5 fluorescent lamps, dimming ballasts and dimming controls, to maximize energy savings and extend lamp life.

➢ **Middle** (e.g. department stores, large bookstores, better mass merchandisers, grocery superstores) balances general lighting systems with accent lighting for key merchandising areas

- Sales assistance: Mixture of self-service and clerk assisted.
- Products easily recognizable viewed and evaluated.
- Goals: comfortable environment where people want to linger, browse, try products and make purchase decision.
- Key display areas for certain merchandise - brightness ratios of 10:1.
- General lighting typically provides very uniform brightness ratios and light levels, with higher luminance at key merchandising areas, ratios not more than 5:1.

Its Lighting System:

- Typically layered with fluorescent for general illumination. Halogen or ceramic metal halide for display accent lighting.
- General lighting typically provided by recessed indirect or deep cell louvered fluorescent luminaries.

➢ **High End** (e.g. exclusive boutiques, fashion, designer label and specialty stores) Employs the most complex lighting, combining general, accent and decorative systems. Light levels are regulated to create contrast and differentiation in merchandise areas.

- Sales assistance: High; some merchandise is not "self serve".
- Products are high quality and high value
- Premium display fixtures and furnishings
- Goals: Encourage customer to invest a lot of time, interacting with sales personnel and inspecting merchandise. Lighting needs to enhance the higher quality of products. (IES 10th Edition Lighting Handbook)
- Complex lighting design, combining general, accent and decorative systems.
- This is usually a non-uniform lighting environment focusing on accent lighting of the merchandise; brightness ratios ranging from 10:1 to 20:1, depending on quality of merchandise not more than 5:1. Light levels are regulated to create contrast and differentiation in merchandise areas.

Its Lighting System

- Halogen IR or standard PAR and MR16 lamps are typically used both for general and display lighting (down lights and track lights). Point sources provide sparkle.

- Compact ceramic metal halide lamps provide good color and energy efficiency.
- Compact fluorescent lamps are used in decorative wall sconces and wall washers.

12.6 Case Study : Influence of Age on the Store Image

The aging of customers will have an affect on their perception of the store's image. With the passage of time (biological aging), the customers considerably change their perceptions about the image of the store. This is because the importance of the attributes (like bright lighting, large lettering) that they associate with a good store image changes with age. The perception of store is also affected by sociological aging, which refers to the changing social relationships at different stages in an individual's life. The changing social status and changing roles of the consumer as an individual have influence on the manner in which he/she perceives the store. Psychological aging also has an impact on the image of a store. The consumer's evaluation of a store's image depends on his/her personal experiences in early life (such as the interiors of the store that he/she visited earlier in life or the music played there). Such impressions could remain in the person's mind and have an influence on his perception of the store even as he grows. The perception change in does not take place as rapidly as change in the retail environment. It changes rather slowly. As a result, the middle-aged and old consumers are generally less positive about the new and less familiar stores than younger customers. The older consumers rank store characteristics like service quality, helpfulness and overall store impression of newer retail stores lower than people in the younger age group. Younger consumers welcome stores with contemporary formats. Therefore, to attract younger customers, retailers should redesign their stores to project a contemporary image. But, to retain older customers, they should try to maintain the kind of store environment that the older generation consumers are pre-disposed to. Retailers should try to design their store environments such that the consumer's perception of the store image is enhanced. Creating such an environment involves considerable resources and so the retailers should consider the age-related behaviours of consumers while designing the store layout. Striking the right balance of different age target markets is a challenge for the retailer. wishes to compete and coexist. When trying to build an image in target customers' minds, retailers should look into the attributes that constitute the image of stores. These attributes vary along the different age groups.

6.7 Summary

Elements Layout and Design combines the talents of the retail design and merchandising experts, that provides with a competitive store layout and design package. Store layout and visual merchandising are factors that contribute to the uniqueness of a store. The exterior and interior of a store convey several messages about the store to the consumers. The building that houses retail store, (whether new or old) and the exterior design of the store are important aspects of the design of the store. Marquees, walkways, entrances, doors, display windows, the height and size of the building, colors and materials used, and theft prevention are some of the key factors to be kept in mind while developing a store's exterior.

Managing space is the first and foremost concern of almost every retailer, when it comes to designing the store's interior. Space is always an expensive and scarce

resource. Retailers always try to maximize the return on sales per square foot. Planning a layout for the store's interior is the first step in designing the store's interior. Allocating space to various merchandise categories in a store is very important. Allocation of space can be based on many factors, like historical sales, gross margins, industry averages and strategic objectives. Apart from allocating space to various merchandise categories, space has to be allocated for carrying out some essential functions. Such space includes the back room for receiving the inventories and sorting them out, office and other functional spaces, aisles and customer service desks, floor space and wall space. The interior of a store influences the purchasing behavior of the customers to a great extent. Designing the interior of a store in such a way as to influence customer behavior is referred to as visual merchandising. It includes optimum and appropriate use of fixtures, displays, color, lighting, music, scent, ceilings and floor, and designing all of these properly. Merchandise presentation is the most significant aspect of store design, because it helps attract customers' attention. A retailer can resort to many forms of presentation such as idea-oriented presentation, item-oriented presentation, price lining, color presentation, vertical merchandising, tonnage merchandising and frontal presentation.

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6.8 Self Assessment Questions

1. What do you mean by Store Layout? Discuss different store layout in detail.
2. What do you mean by Store Design? Discuss the elements of Store Design.
3 Write short note on Retail Lighting Design.
4. Prepare a store layout and design for a retail store dealing in apparels.

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Unit 13 - Visual Merchandising

Structure of Unit:

13.0 Objectives

After completing this unit, you would be able to:

- Know the elements of retail store management and visual merchandising.
- Know the steps involved in visual merchandising
- Know how various types of fixtures, merchandise presentation methods and techniques, and the psychology of merchandise presentation are used to increase the productivity of the sales floor.
- Determine the role of visual merchandising in a retail store.
- Find out the way of creating the proper store image and increasing the productivity of the sales space.

13.1 Introduction

Retailers can use the retail store to initiate and continue their relationship with customers. In fact, no other variable in the retailing mix influences the consumer's initial perception as much as the retailer's store, by itself. There are two **Primary Objectives** of Retail Stores, around which all activities, functions, and goals in the store revolve. They are:

Store Image : Store image is the overall perception the consumer has of the store's environment.

Sales Productivity: Space productivity represents how effectively the retailer utilizes its space and is usually measured by sales per square foot of selling space or gross margin dollars per square foot of selling space.

The success of the retailer depends on the retail store since it is the place where customers makes purchase decision related to the products offered by the retailer. Operations set that regulate the entire workings of a store thus have a pivotal role. From the retailers' point of view, operations of the store are a major element of the cost. As a consequence, the store itself becomes a critical asset of the retail business and it is imperative that the store is maintained and managed well to achieve and sustain customer satisfaction and be cost effective. Managing store operations for a retail business of any size or complexity, from the neighborhood

grocer to the national retail chain, is a challenging task. It requires integration among various functions within the store. Good merchandise offered by retailers' in the store does not sell by itself. It also requires effective presentation. A well prepared operations manual or blue print is the starting point of efficient store management. Retailers' need to integrate the store operations like:

1. Store facility Management and Maintenance
2. Merchandise Displays
3. Energy Management
4. Security of the Retail Premises
5. POS and Checkout system
6. People Management
7. Implementing CRM
8. Inventory Management

When all functions are performed in an integrated manner, the store operations run smooth. The proper performance of these functions is ensured by Retail Store Management. In cyberspace, retailers must be concerned with the format of the entire website. In order to drive repeat visits and encourage consumer purchasing on one's web site, the e-tailer should:

a. Keep content current.

b. Make the site easy and enjoyable to use.

c. Structure an online community where consumers can interact with one another or contribute to the site's content.

13.3 Elements of Retail Store Management

No other variable in the retailing mix influences the consumer's initial perceptions of a bricks & mortar retailer as much as the store itself. This reinforces the importance of Retail Store Management. The successful retailer will place a heavy emphasis on managing their physical facilities so as to enhance the retailer's overall image and increase its productivity. The ambience of the store itself plays a vital role in promoting the merchandise available in it.

The elements that should be considered are:

a.   **Space Management -** The store management is to "manage where the action   is" and includes such minor details as the placement of the merchandise. Along with space management, fixture selection, merchandise presentation; visual merchandising is another important element of store layout and design.

b. Maintenance – It involves activities involving management of the exterior and interior physical facilities like escalators, lift, air cooling and ventilation system, security system, fire extinguisher, lighting system power back up system etc. It also involves maintaining other exterior and interior facilities. The exterior facilities include parking lot, entrance and exit, retail identity boards, signs outside the store. The interior facilities include the energy management, walls, flooring, ceiling maintenance, cleanliness and the neatness of the store and visual communication including graphics, displays,

signs and POS signage etc. Store maintenance affects both the sales generated in the store and the cost of running the store.

c. **People Management –** Store employees' productivity is directly affected the employee management process. There are number of employees like Stores Manager, Asst. Store Manager, Section Head, Shelf boys/girls who play an active role in administration and management. Shifts and breaks should be managed to adjust in specific time-slots so as maintain the floor. Store is well-managed and maintained by the combined efforts of all the employees. The employees should follow the instruction given to them by the manager or assistant manager. The section heads should maintain their own sections and should be assisted by their respective assistants

d. **Operations Management –** It includes Cash management, POS and checkout system, inventory management, loss prevention etc.

13.4 Visual Merchandising

Space Management is the way the goods and merchandise are displayed in a store by making optimum use of store space. It plays a prominent role in the consumer buying process. Designing the interior of a store in such a way as to influence customer behavior is referred to as visual merchandising. It is coordination and integration of all physical elements in the store so that it projects the right image to the shoppers. Visual Merchandising includes optimum and appropriate use of fixtures, displays, colour, lighting, music, scent, ceilings and floor, and designing all of them properly. The consistency between Visual Merchandising elements and Merchandise is important to enhance retail shopability or sales. The primary objective of visual merchandising is to increase footfalls into the stores by bringing the merchandise in the store in limelight.

Retailers' maintain visual displays and arrange the merchandise assortments within a store to improve the layout and presentation. This engages the customers' senses to entice them into making a purchase. The shop itself is regarded as a considerable advertising medium, and it may well be a familiar landmark. Some large departmental stores rarely advertise, but their shops are maintained so well through VM that they advertise themselves. **Examples:** Special fixtures, display hanging signs, leaflets, demonstrators, window displays etc.

Effective visual merchandising along with fixtures and their placement within the store space manages the customer flow and delivers a better engaging experience to them. In the competitive dynamic environment innovation and newness in VM has become a rule rather than an exception which continues to make shopping experience exciting.

➢ *Steps in Visual Merchandising & Displays includes:*
• Planning the Visual Merchandising theme and creating displays
• Arranging props for displays
• Arranging display fixtures and lighting
• Setting up store before opening
• Working with floor plan and stores requirement
• Training personnel on sales floor to create display
• Organizing merchandising units such as racks and shelves

13.5 Elements of Visual Merchandising

Elements of Visual merchandising are:

1. **Graphics :** Graphics such as photo panels, paintings, posters etc. give novelty to the retail store and reinforce its image. These graphics are theme based which are followed throughout the retail stores or chains and these can be specifically linked with the promotional campaigns.

2. **Signage :** Signage is the face index of the store and supplement other visual cues. These are special lettered words or messages that may guide the customers towards the store. Customers may develop associations of trust, value, quality of goods and services, price, warranty and guarantee, etc as they come across such visuals such as signage, window dressing, logo, etc based on past shopping experiences. Signs and graphics used in the store act as bridge between the merchandise and the target market. Design factors should be maintained to create theatrical effect, add personality, beauty and communicate store image. Both external and internal signage communicate inside and outside the store. External signages are placed along with the front entrance. Internal signage also known as *Point of Sales Signage* promotes the merchandise by informing its basic features and price. Nowadays *digital signage* are prevalent.

3. **Sections:** Large retail Stores have multiple sections like food & grocery, Fruits and vegetables, Electronics, Home appliances etc, which should be properly maintained within a retail store. Every section should be allotted to a section-head, who is responsible for the activities like stocking, stock-taking and replenishment of products in the respective section. The section-head has to clean the shelves, dust the products therein, and arrange the products properly. The section head is responsible to put price tags on the shelves. The products should match with the price tags on the shelves. The section-head should maintain the cleanliness of the floor in their respective sections. The products in the sections should be maintained in such a way that they should match with the sign-boards. Care should be taken to see that the products in the shelves should match with the price tags on the shelves so that mismatch doesn't persist when the product is scanned.

4. **Store Fixtures :** Fixtures hold and display merchandise efficiently**.** They work in concert with other design elements, such as floor coverings and lighting, as well as the overall image of the store. Fixtures may be of two types- floor fixtures and wall fixtures.

➢ *Floor Fixtures* **–** Floor fixtures are used to supplement the display props on floor for the purpose of holding and display of merchandise.

Fig:13.1: Floor Fixtures

Types of *Floor Fixtures*

- Straight Rack - Long pipe suspended with supports to the floor or attached to a wall.

- Gondola – Large base with a vertical spine or wall fitted with sockets or notches into which a variety of shelves, peg hooks, bins, baskets and other hardware can be inserted.

- Four-way Fixture – Two crossbars that sit perpendicular to each other on a pedestal.

- Round Rack – Round fixture that sits on pedestal.

- Other common fixtures- Tables, large bins, flat-based decks.

➢ *Wall Fixtures* **–** Fixtures on the wall

Fig:13.2: Wall Fixtures

- To make store's wall merchandisable, wall usually covered with a skin that is fitted with vertical columns of notches similar to those on a gondola, into which a variety of hardware can be inserted

- Can be merchandised much higher than floor fixtures (max of 42" on floor for round racks, on wall it can be as high as 72"

5. **Merchandise Display/Presentation :** Merchandise presentation/display plays a vital role in impelling the customers to buy more.

➢ *Different methods of merchandise display are :*

• Shelving – flexible, easy to maintain. Beside this, it helps in easy bifurcation of goods enabling quick choice

• Hanging –Must be hanged in such a manner that the merchandise are displayed effectively and their generosity is maintained

• Pegging – small rods inserted into gondolas or wall systems – can be labor intensive to display/maintain but gives neat/orderly appearance

• Folding – for soft lines can be folded and stacked on shelves or tables - creates high fashion image

• Stacking – for large hard lines can be stacked on shelves, base decks of gondolas or flats – easy to maintain and gives image of high volume and low price

• Dumping – large quantities of small merchandise can be dumped into baskets or bins – highly effective for soft lines (socks, wash cloths) or hard lines (batteries, candy, grocery products) – creates high volume, low cost image.

• Tonnage Merchandising – The display technique in which large quantities of merchandise are displayed together.”Stock it high and let it fly” is the retail adage that reinforces the store’s economy/price image.

➢ **Different Types of Merchandise Displays are:**

• **Window Displays:**

o Exclusive windows (closed backdrop with a theme and seasonal motif)

o Open windows (Without backdrop so that passerby can see interior of store) E.g. Apparel & Related accessories.

Fig: 13.3: Window Displays

• **Live display:**

o   Live models used, e.g. Kids Kemp in Bangalore using Cartoon characters to attract kids

• **Marquee Display:**

o   Example –Gillette Mach 3 stalls at Malls

• **Free Standing/Island displays:**

o   Inside the store at the entrance to announce new arrivals /special offers – E.g. Pantaloons –Denims kept at entrance

154

- **Counter displays:**
o   For jewellery and watches

- **Brand Corners:**
o   For display of exclusive brands or devoted space in shelves or gondolas. Ex. Arrow / Zodiac at Shopper's Stop

- **End Cap Displays:**
o   At terminal side of gondolas – both at entry and exit. Used in book stores

- **Cascade & Waterfall display:**
o   Exclusively for Blazers, Jackets, etc.

Fig: 13.4: Brand Corner Displays

➢ *Psychological factors to be considered in Merchandising Display are:*
- Value/fashion image- Trendy, exclusive, pricy v/s value-oriented
- Angles and Sightlines
    o Customers view store at 45 degree angles from the path they travel as they move through the store
    o Most stores set up at right angles because it's easier and consumes less space
- **Vertical Colour Blocking**
    o Merchandise should be displayed in vertical bands of color wherever possible – will be viewed as rainbow of colors if each item displayed vertically by color
    o Creates strong visual effect that shoppers are exposed to more merchandise (which increases sales)

➢ *The various aspects in maintaining shelves allocation and presentation are as follows:*

• The products which are fast-moving should be allocated more faces on the shelf. The products should be placed in the shelf in such a way that it clearly shows the brand of the product

• Fast-moving products should be stocked in higher quantities. The products on the shelves should exactly match with the sections sign-boards. The height of the shelf should not be so high than customers' eye contact so as to provide convenience to customers while picking a product.

• The width of the shelf should be such that it provides enough space to arrange the products.

• The products which are fast-moving should be placed close to products which are slow moving. This helps in impelling the customers to purchase the slow-moving products.

• The products which are to be promoted should be placed in the racks which are easily visible to the customers. The products should be placed at such positions from where they can be easily picked.

• The store may also carry joint-promotions with the other brands. These products should be allocated in the shelves which are at the corners of the aisles in the store. This arrangement should be in these corner-aisles where the joint promotion is being taken because it grabs the attention of the customers and impel them to purchase the products. The products in the shelves should not be over stocked more than the capacity of the shelves

6. **Planograms** : Planogram is a diagram that shows How and where specific merchandise is placed in retail shelves or displays to increase customer purchases. A planogram helps in placement and visualization of merchandise along with various fixtures, shelves and walls. These are used by chain stores to display merchandise in the most optimal manner and top achieve standardization across many store location of the retailer. It is useful for merchandise that does not fit nicely on the shelves in supermarkets, discount stores etc.
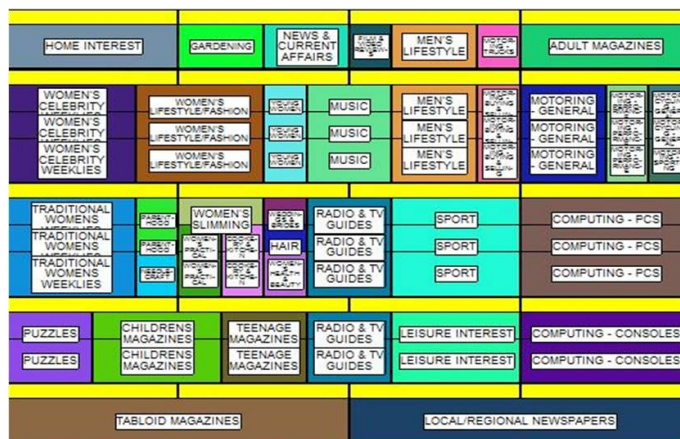

Figure 13.5 : Planogram

13.6 Store Atmospherics

Store atmosphere is a way of promoting retailers' image to the customers. It refers to the overall ambience of the store and anything inside a retail environment that is intended to influence buyer behaviour. It includes: colour, smell, music, lighting, temperature etc. For example, a coffee shop may play slower paced music to draw in their target crowd and entice people to stay and drink coffee.

Atmospherics or the retail environment consists of physical designs, social ambience emotional cues, olfactory and tactile characteristics that influences the consumers' subjective interaction with the environmental stimuli.

> **Benefits of Managing Atmospherics**

- Retail atmospherics helps retail stores have <u>more influence</u> over their customers to encourage spending more in the store.

- Retail atmospherics are based upon the fundamentals of consumer psychology in terms of using triggers to tell people to make a purchase or to stay in the store.

- The environmental cues not only craft store image but also speak about the identity of the store's clientele and act as signals of quality and value to other customers.

- Atmospherics are designed to set the store apart from its competitors in a positive way.

- It plays an important role in designing companies branding strategy.

- Atmospherics help in attracting customers' to the store and are designed to influence customer's mood so as to increase the odds of a purchase being made.

- The environmental stimuli can affect consumers' cognitive process altering value perception and shopping behavior. Philip Kotler in one of the earliest literature on retail atmospherics, stated that environmental dispositions in and around a retail store can evoke perceptions about store image and patronage intention.

- Store atmosphere influences emotional states such as pleasure, arousal, dominance, submissiveness and consequently blocks or elevate the consumers' mood and shopping motive.

- Retail atmospherics such as lighting, layout, displays, fixtures, colors, textures, sounds, and fragrance affect consumer product perception.

13.7 Elements of Store Atmospherics

Elements of Store atmospherics are :

1. **Music in Retail Store:** Music variations such as fast, slow, classical, instrumental, and hit numbers influence consumers' mood, time spent and emotion. Changing music in different parts of the store influences and alters consumers' mood or appeal. Customer value increases when customers' shopping time increases due to music familiarity or specifying

157

special occasion and festivity. Music may increase or decrease stimulus seeking behavior among customers, affecting their actual shopping time, product selection, and shopping volume. Shopper's time varies due to loudness and softness of music. Relative to "no music" or "unfamiliar music," playing "familiar music" increases consumers' attention to products and services. The type of music played on a store speaker system is often a good clue as to the target customer for the business.

Example: Spas and massage parlors more often use new age or relaxation music to set a mood. Fashion retailers' would more likely use techno or fusion songs. Classic rock may be the musical choice for an apparel retailer targeting middle-aged and older buyers.

2. **Lighting in Retail Store**: Lighting is an important determinant of retail environment. It changes consumers' mood, creates excitement and gives thematic apperception to the store image. Lighting affects customer's attraction and choice of retail store and visibility in evaluating products' features, price, ingredients, labels, etc. Lighting is one of the more commonly manipulated atmospherics. The variations in lighting conditions in terms of brightness and colour of lighting may be based on different retail setups. Many retailers simply maintain brightly lit stores because research suggests that it makes customers happier and more upbeat, which induces higher volumes of buying. Other retailers choose lighting to fit the store brand. Example: A trendy, youthful fashion retailer may use moderate lighting, strobe lights or lighting effects to create energy or to attract young shoppers. Some retailers use dark or dim lighting because it goes with the store. The lighting conditions influence consumers' time perception, visibility, and most importantly, the store image through associations created in the consumer memory in the post-purchase stage. It can be used to draw consumers' attention to strategic pockets in the store or it may help in down-playing less attractive areas.

3. **Colour Preferences:** Colours have psychological influence on buyers. Consumers have learned to associate meaning with different colours or colour combination that are imbibed into the culture. Understanding colour preferences of customers can help in communicating and building store image. In some cases, retailers use consistent colour schemes simply to convey brand image and to remain consistent.

Target's red theme is a classic example. Red colouring used in a lingerie or intimate apparel department can play up the fiery and intense feelings red invokes. In a bed department of a furniture store, blue or pink colouring can help customers imagine sleeping or connect the retailer's beds with sleep. Brands opt for different colours in order to communicate their uniqueness, functionality, value, and category membership. Consumers often associate brand and store image with their colour. Example: McDonald use red and yellow colour to communicate leadership and happiness. Colours have differences in their significance, with changes in cultural context. For example, the colour black has different significance in western and eastern cultures. Universally the colour pink is used to communicate feminist, green is used for freshness, natural, and vegetarian, and so on. Moreover, the colour preferences of consumers change with

change in fashion, fad, and trend. Understanding colour prejudices and their meaning beyond the textual context on a local scale can help retailers' in enhancing store's image. Researches have proved that:

- *Warm colours* increase blood pressure, respiratory rate and other physiological responses – attract customers and gain attention but can also be distracting

- *Cool colours* are relaxing, peaceful, calm and pleasant – effective for retailers selling anxiety-causing products

4. **Tactile Factors:** Tactile factors such as temperature maintained in a retail store help in creating a holistic atmosphere in shop. These cues create aesthetically sensitive dispositions, signal store's merchandize quality, clientele, comfort, and overall store image through associations in the consumer memory. Consumers in India often choose stores that facilitate comfort and environmental control.

   *Example***:** During summers consumers often prefer to seek solace and comfort in stores with air-conditioned facilities. These factors increase customers' exploratory tendencies and sensation seeking behaviour.

5. **Olfactory Factors :** Olfactory factors such as scent, freshness, etc have significant impact on store image. Smells are often among the less obvious but more impacting atmospherics. Smell can be administered through time release atomizers or via fragrance-soaked pellets placed on light fixtures. Example**:** Fashion retailers often use scented candles to create a pleasant aroma in their stores. Spas and beauty salons often use scents to create a tropical aura. In some situations, retailers simply use pleasant aromas to attract and retain customer interest.

Starbucks had built a powerful brand by focusing on a specific branded sensory experience. The   Starbucks retail coffee shop has smells, colours, sounds, and textures that are instantly memorable and   enable consumers to "live" the brand after they've left the store. For Starbucks brand loyalists, the local Dunkin' Donuts just won't do, they are influenced by total experience.

Activity A:

 Visit two retail stores and identify the various aspects like interiors, exteriors, visual merchandising and store atmospherics. Compare the two stores in terms of all these aspects and explain how they help in building the overall store image.

13.8 Case Study - Big Bazaar

Big Bazaar is a chain of shopping malls in India owned by the Pantaloon Group. The idea was pioneered by entrepreneur Kishore Biyani, the head of Pantaloon Retail India Ltd. The idea from the very beginning was to make Big Bazaar very comfortable for the Indian customer. Big bazaar is not just another hypermarket. It caters to every need of your family. Where Big Bazaar scores over other stores is its value for money proposition for the Indian customers. At Big Bazaar, you will definitely get the best products at the best prices - that's what they guarantee.

1. Interiors : The interior design of Big bazaar is very vibrant. They use color combination of vibrant colors like blue and orange that leave an impression on Indian minds. The interior of big bazaar is truly designed as Indian hyper market that promises one stop shopping. It is designed as agglomeration of bazaars with different sections selling different categories. The "U" shaped section and islands have proved to be more appropriate for Indian context than long aisles.

 "The interior of a Big Bazaars comprises of the living space of the store which includes ceiling, walls, flooring and lighting, fixture and fittings" The elements of the interior design are selected economically. The general design of the interior is in uniform with the exterior.

Interior attributes:

- ✓ Envelope: The internal structure and decoration of the building that provides the physical boundaries within which shopping takes place.

- ✓ Internal layout: The internal paths customer use is in order to view merchandise.

- ✓ Methods of display: including the fitting and fixtures; their positioning; and the color and texture are within the product themselves.

- ✓ Big Bazaar outlets always look very crowded. It is concisely designed to look just like that. When the shop looks neat and empty, the masses never walk into it. There has to be what is called the 'button brush effect', and an organized chaos. Indians like bumping into people, chatting, gossiping and eating while shopping.

2. Visual merchandising: Display of the items on sale together with models, pictures and other items that illustrate product use or create lifestyle impressions relating to their use. Visual merchandising at Big Bazaar uses "Store display for promotional purpose, but as customers are becoming more sophisticated, Big Bazaar has found various techniques for effective display for providing information and communicating image of the store to the customers, helping them in taking purchase decision and creating exciting shopping environment" Big Bazaar not only uses visual merchandising for promoting their product, but they use it as a significant tool for creating appropriate store environment and influencing purchase decision of customers.

They use danglers and hoardings at the entrance of the store as this may be a deciding element in a consumer's decision to enter a store. It uses various visual merchandising like it uses remarkable window display for creating a shopping environment as it creates initiative impression in the mind of customers as window display also sometimes become a deciding factor whether to enter the store or not .

3. Exteriors : The exterior of Big Bazaar includes, the exterior of the stores like the e fascia, entrance of the store, architectural design of the building and window. The exterior design of Big bazaar is easily visible from the distance and it can be distinguished from its competitors. The exterior is attractive enough to encourage customers to enter in to the store. Big bazaar uses harmony between the elements of the exterior of the store in order to deliver desired store image. Window display is used as an effective medium to introduce new offerings of the company, so special attention is given in designing windows of the store. The entrance of the store is designed to welcome shoppers and to provide easy accessibility.

The exterior Store environment: Big bazaar outlets are located at shopping center, high street or local parade.

The exterior Store Front: Big bazaar uses a color combination of Orange and Blue. Exterior store maintenance includes such as*:*

- ✓ Car parking
- ✓ Horticulture, sculpture and lighting
- ✓ Other external buildings
- ✓ Outdoor seating, trolley parking and other miscellaneous

4. **Store Layout:** Big Bazaar layout consists of layout of long rows of parallel fixtures, with no aisles because aisles can be boring they restrict space and can't be dramatized. At Big Bazaar, they create multiple cluster or mini-bazaars within every store. It was designed as an agglomeration of bazaars with different sections selling different categories'.

- ✓ It uses space efficiently.
- ✓ It provides easy sitting of merchandise and linking of the product throughout the store.
- ✓ It allows more customers in the store at any time.
- ✓ Allows staff of the store to work easily alongside the customers without disturbing them.
- ✓ Provide self-service atmosphere

5. **In- Store Services:** Big Bazaar provides a wide range of services to its customers like Trial rooms , elevators, car parking , security, baggage counter , trolleys so that one could shop easily . They even provide them with after sale services in case of buying electronic items. One of the major services provided by them is one stop shop as one could get a whole range of items under one shop and at the most reasonable price. They always have their outlets in such a location where it is easy to commute.

13.9 Summary

The successful retailer will place a heavy emphasis on designing their physical facilities so as to enhance the retailer's overall image and increase its productivity. The elements that should be considered are: Visual Merchandising– Retail identity, fixture selection, merchandise presentation, graphics, and POS signage. Store Atmospherics – store ambience, music, fragrance and lighting. The ability to create and change image through the store environment becomes more important every day as consumers' time priority increases. The improvement of the store image helps the customer to come to the store and the way of converting him into a real buyer is the space productivity.

13.10 Self Assessment Questions

1. What do you mean by retail store management.
2. Describe the elements of visual merchandising.
3. Write brief notes on:
   (a) Wall fixtures
   (b) Floor fixtures
   (c) Window displays
   (d) Store Atmospherics
4. "Store Atmospherics influences sales." Do you agree? Explain.

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Unit 14 - Store Maintenance and Operations Management

Structure of Unit

14.0 Objectives

After completing this unit, you would be able to:
- Understand the meaning of store maintenance
- Understand the importance of store maintenance
- Know the elements of store maintenance
- Develop an understanding of managing the operations of the store

14.1 Introduction

With the growing demand for retail outlets and chains, the maintenance management system of the retail stores is becoming increasingly important. In order to maintain an appealing and conducive ambience and a 100% operational facility, it is important to manage the operations on regular and continuous basis. As the chain of stores grows, operations management helps to expand the asset hierarchy and it develops reports of how much was spent on any given store or group of stores over a period of time.

14.2   Store Maintenance

Store maintenance includes all the activities performed to maintain the store as per the criteria, rules set by top management. This includes the proper cleaning of the store and arranging the merchandise before the customers' come to shop. Store maintenance involves all activities involved in managing interior and exterior store facilities.

a) **Exterior Store facilities:** The exterior store facilities include the facilities outside the store like Storefront, Marquee, Store entrances, Display windows, Exterior building height, Surrounding stores and area, Parking facilities

b) **Interior Store facilities:** The interior store facilities include the facilities within the store like flooring, colours, lighting, scents, sounds, store fixtures, wall textures, temperature, Aisle space, Dressing facilities, In-store transportation (elevator, escalator, stairs), Dead areas, Personnel, Merchandise, Price levels, Displays, Technology, Store cleanliness, walls, ceilings, energy use, fixtures, windows, shelves, space management, displays, signages and sidewalks. Store maintenance deals with various aspects like the cleanliness of the store premises, maintenance of the store façade and the display windows etc. .

14.3 Importance of Store Maintenance

The success of a retail store depends on how efficiently the retail store is maintained. Store maintenance plays an important role in the maintaining the store image, profitability and long run sustainability. Store maintenance is a major responsibility of store manager. It helps in:

1. Increasing store traffic

2. Enhances overall image of the retail store

3. Attracting new customers

4. Creates a distinct USP

5. Gaining competitive advantage

6. Facilitating effortless movement in the store

7. Optimum utilization of store space

8. Saving customers' energy by reducing search time

9. Effective display of merchandise

10. Increasing sales and revenues

11. Spreading positive Word –of-Mouth about the retail store

12. Enhancing the overall service quality.

13. Providing convenient access to merchandise in the store

14. Generating good customer experience

15. Reinforcing the market communication of the retail store

14.4 Store Maintenance in Retailing

Store maintenance includes:

➢ **Facility Management and Maintenance**

Facilities management includes maintenance and cleanliness of the premises that is crucial to maintain and improve the store ambience and atmospherics. The housekeeping is another word that denotes facility management. It is usually carried out at odd hours during early morning hours or even during night hours in case of restaurants. Store maintenance usually entails the following activities:

- Regular washing and polishing the floors
- Cleaning of furnishings and carpets
- Washing and cleaning window glasses, doors, walls etc.
- Dusting and cleaning of fixtures and furniture
- Cleaning up of facilities like washrooms, trial rooms etc.
- Emptying trash cans

➢ **Store Façade Management**

The stores façade management includes maintenance activities like:

- Cleaning the store premises
- Maintaining adequate light in the shopping area
- Providing appropriate signage on the walls
- Colouring the walls of the store
- Maintenance of shelves and trolleys
- Playing music in the store that is liked by the customer
- Providing a good store between the operating hours of the store as per requirement.

➢ **Lighting Maintenance**

White tube-lights and energy efficient lights should be used for providing light in the store and the transparent glass-doors are also a good source of light during the day-time. It should be ensured that sign-boards have been placed and sufficient light is there in the store to help customer in finding the product they are searching for. This helps in guiding the customers properly which in turn increases customer satisfaction.

➢ **Energy Management**

Cost saving is the primary driver behind the energy management initiative Energy management is important for a retailer as it also builds an image of a socially responsible firm. The retailers can take following measures towards better energy management:

- Maximum use of natural light

- Switching off air conditioning systems during sluggish hours.

- Use of energy efficient CFL Bulbs and ISI or BEE marked electrical equipments

- Repairing faulty wiring which may result in more power consumption or cause fire.

Nowadays robust asset management system and other software are available that records the data from appliances like freezers, and A/C units and perform accordingly. So managers can keep equipment running at peak performance, which reduces costs in the long run.

➢ **Maintaining Store Security Systems and other Equipments**

In order to ensure proper functioning of security and safety equipments, mock practices should be conducted. Boards indicating Emergency Exit should be properly maintained and way to it should also be highlighted. Dos and Donts (Like use stairs instead of lifts for emergency exit etc.) during any mishap should be placed at conspicuous points.

➢ **Updating Licenses and Insurance**

Store maintenance and Facilities Management are related to various aspects like license, insurance, etc. These aspects are must for an appropriate administration and maintenance of the stores not only for regular efficiency but also required for the fulfillment of various legal, political and safety measures.

License	Subject	Issuing Authority	Retail Format
Registration Certificate	Under Shops & Establishments Act	MC Ward Office	Supermarket/ Department Store
Trade License	Edible Oil, Ready made ice creams , sweets & chocolates	MC Ward Office	Supermarket
Dairy License	License for cow, buffalo milk	Public Health Deptt of MC(Municipality)	Supermarket
License for frozen items	License for items like fish, mutton,etc	Market & Slaughter Deptt of BMC	Supermarket
License for rationing	For retail sales of pulses, food-grains, sugar,etc	Deptt of Civil Supplies	Supermarket
License for Weights & Measures	License for weighing machines	Inspector-Weights & Measures	Supermarket/ Department Store
Central Sales Tax Registration	Registration under Central Sales Tax	Sales Tax Office	Supermarket/ Department Store
VAT / Sales Tax Registration	Registration under for example Sec 22/22A of Mumbai sales Tax Act	Sales Tax Office	Supermarket/ Department Store

Table 14.1: Licenses Required in a Store for Facilities Management

Store Insurance

It includes:

- Insurance against theft, fire, floods, riots, earthquake, etc.
- Policy to be carefully formalized to cover all potential risks
- Insurance – for 3 things
    a. Building & Infrastructure
    b. Inventory
    c. Cash (In store & bank)

➢ **Check-out Counter Maintenance**

The counters should be maintained in such a way that the waiting-time for billing is reduced from time to time. Some products should be placed in smaller shelves near the check-out counters; usually chocolates, magazines or seasonal items (based on the seasons) etc. When the customer waits at the counters they tend to buy some products that they had forgotten to buy. This increases the sales of the store. **Example:** Soft drinks/ Beverages placed in small refrigerators during summer seasons impel customers' to buy and consume them while waiting in queue.

➢ **Arrangements for Retail Crowding and Emergency**

Retail crowding consists of human and spatial crowding on the basis of the number of people in a store at a certain point of time. Because of this, customers may perceive feelings of discomfort and suffocation depending on their personal tolerance level and the amount of inventory that makes it difficult to move around or locate things within the store. Proactive measures should be taken to manage overcrowding in the store on special occasions like festivals, special days etc. like restricting the inflow in store at certain limit.

Crowding in retail store may lead to lack of interest, decrease in exploratory tendencies, lack of interaction with sales personnel, delay in shopping time, unnecessary distractions and ultimately decrease in customer value. So the store manager must manage and maintain the store to reduce discomfort for shoppers' and by ensuring proper ventilation and air circulation to make shopping a pleasant experience. The retailer must strictly abide by basic health and safety norms to avoid any mishap.

Activity A:

Visit retail stores in your locality and identify two retail outlets, one store which is well managed and maintained and the other poorly maintained store. Try to identify merits and demerits in each and compare how store maintenance help in building an overall image of the   store.

14.5 Operations Management

The successful implementation of store operations is crucial to achieve the long term objectives. Store operations include managing back-end as well as front end operations of routine nature. Some of which are as follows :

1. Cash Management

Cash Management at Point of Sales – Every counter needs some mechanism or machine to process sale, it is cash register or its technological solution in form of electronic cash management system or an elaborate computerized point of sale

(POS) system. Cash register tells retailer about the total sales, itemized sales performance, profit analysis on daily basis, inventory monitoring and tallying thesale figures with the cash.

Hardware of POS system consists of – POS computer system, Cash Drawer, Scanner, Signature capture device, Receipt printer, credit/debit card transaction machines.

Traditional Methods of Cash Management

- Minimum Cash at cash counters
- Cash balance to be updated manually
- Keeping eye on cashier from distance
- Change(Chiller) Management

New Methods of Cash Management

➢ Cash Register Express

Cash Register Express (or CRE) is a cost-effective computerized cash register that keeps inventory costs down, reduces theft and makes more money. CRE is Windows-based POS system exclusively for retail and video stores.

Its Features are :

- Easy to use
- Fast lookups by barcode or name
- Built-in help system Bar-code ready
- Credit card processing with IC Verify
- Built-in backup
- Salesperson tracking Time clock
- Handles multiple clerks
- Handles multiple cash drawers
- Password protection

Broad compatibility

Microsoft Access compatible
Quick books compatible

➢ Radio Frequency Identification Designs (RFID)

It is a technology similar in theory to bar code identification. The important features of RFID are:

- With RFID, the electromagnetic or electrostatic coupling in the RF portion of the electromagnetic spectrum is used to transmit signals.
- An RFID system consists of an antenna and a transceiver, which read the radio frequency and transfer the information to a processing device, and a transponder, or tag, which is an integrated circuit containing the RF circuitry and information to be transmitted. payments, transportation and logistics, animal identification, museums, libraries etc.

Its Features**:**

a) Helps manage customer accounts

b) Management flexibility

c) Sophisticated reporting

2. Inventory Management

An inventory-control system is the mechanism within a company that is used for efficient management of the movement and storage of goods and the related flow of information. Product resellers have access to technology-driven software programs that help optimize store space, and implementing just-in-time(JIT) technique which is critical in achieving business success.

Inventory Management helps to:

o *Avoid Stock-Outs*

It makes sure that the customers have access to products when they need or want them is a key service issue in inventory control. For this system should include a well-outlined replenishment system, where critical inventory levels at a store result in swift shipments from the distribution center or directly from a vendor. When the efforts are put into promoting products to attract customer interest, the retailer should have inventory on hand when they come to buy.

o *Avoid Excess Inventory*

Optimized inventory control actually balances a fine line between too much and too little. In fact, a main reason companies have gone to *just-in-time* systems and advanced software solutions is to avoid having excess inventory while trying to meet demand. Carrying too much inventory in distribution centers or retail stores is costly. It takes up space, employee time, utility costs and limits floor space for selling. Plus, perishable items or products with expiration dates must be thrown out if you can't sell them.

o *Move Goods Efficiently*

Efficiency in inventory means the ability to quickly receive and store products as they come in and retrieve and ship when they go out.

o **Cost Efficiency**

Every extra time spent in the logistics processes adds to the cost of inventory. Inventory management reduces the inventory carrying cost, stock out cost, ordering cost and helps in efficient distribution of merchandise that in turn delivers customer satisfaction. Retailers expect suppliers to meet prescribed delivery timetables, and customers expect customized orders and products to arrive on time. This is possible only through effective inventory management.

o *Maximise Profit Margins*

Well-managed inventory control is often a key in meeting profit margin objectives. Gross profit margin is the difference between revenue earned from sales and the costs of goods sold. Taking away fixed costs including buildings, utilities and labor and retailer gets to operating margin. Inventory control while meeting the other retail objectives is also critical in earning profit and growing retail business.

A well thought merchandise and inventory plan helps the retailer to reap benefits of price, availability and profitability that ensures success in long run. Inventory management basically addresses two questions:

1. Economic Order Quantity
2. Reorder Point

- *Economic Order Quantity* - **Economic Order Quantity** is the order quantity that minimizes total inventory holding costs and ordering costs. It is one of the oldest classical production scheduling models. It determines the optimal number of units to order that helps in minimizing the total cost associated with the purchase, delivery and storage of the product.

- *Reorder Point* – EOQ deals with how much quantity to order whereas **Reorder Point** is a technique to determine *when* to order. It depends on the lead time, average usage and the EOQ.

Methods of inventory control in retailing

The retailer always like to dispose of unwanted items and have a realistic idea about the stock position on continuous basis. The methods being followed are:

- *Visual Control* – Examining the inventory visually to ensure that the desired items are available.

- *Tickler Control* – Physically counting the snmall portion of inventory everyday for different product category each day.

- *Stub Control* – Retaining al portion of price ticket of of the each unit sold.

- *ABC Analysis* – Identifying the performance of individual SKUs in assortment plan on different parameters like – sales, profitability, traffic building etc.Ranking is done as follows:

  A category – Should never be oput of stock

  B category – Can be allowed to be out of stock occasionally

  C category – May be deleted from the stock selection

3. **Shrinkage Prevention**

When the merchandise leaves retailer's store or warehouse without any payment and without any prior approval of the requisite authorities, it is termed as merchandise shrinkage. It is also difference between recorded inventory and the actual inventory.

Shrinkages are of two types:

1. *Internal Shrinkage* : Theft by the employees of the retailer
2. *External Shrinkage* : It is due to fraud and theft by the customers and fraud by the vendors of the retail oraganisation. External shrinkage is also linked with supply chain i.e. loss during transportation, wrong delivery of merchandise at the supplier's end, supplier returns, customer returns etc.

The various measures to be adopted to avoid shrinkage are:

- When planning stores, the prevention of shrinkage due to theft, damage, and loss must be considered as it helps in reducing the merchandise cost to the retailer.

- Some layouts will minimize vulnerability to shoplifters by increasing the visibility of the merchandise.
- Installation of Electronic Article surveillance (EAS) Systems.
- Using safe keepers, locked boxes and product alarms, electromagmetic displacement pegs
- Personal Monitoring by Security Personnel
- Working closely with vendors (with help of RFIDs)
- Use of source tagging –Small anti-theft labels are hidden inside a product or packaging by manufacturer

Categories of theft in retail store– worldwide**:**

- Health & Beauty products
- Jewellery & Compact discs

Categories of theft in retail store – India:

- Chocolates
- Cigarettes
- Blades

Proportion of shrinkage:

- International – 0.6 to 1.5%
- India- 0.7%

14.6 Stores Operating Parameters

To Evaluate Day to day operations of Stores, Dip stick parameters are used to measure retail performance. These parameters enable retailers to find out health of specific area of operation. The Important Parameters used in this relation are:

- **Customer Transactions**
  1. **Customer Conversion Ratio**

     Number of Transactions

     _____ x 100

     Customer Traffic

   This reflects retailer's ability to turn potential customers into buyers.
  2. **Returns to Net Sales**

     Total Return & Allowances

     _____ x 100

     Net Sales

   This reflects customer's satisfaction by showing value of returned goods and allowances as a percentage of net sales
- **Stocks**
  1. **Avg. Selling Price**

     Total value of goods sold ÷ Total Qty. Sold
  2. **Avg. Stock Price**

     Total value of goods in stock ÷ Total Qty. in Stock
  3. **Stock Turnover/ Inventory Turnover Ratio**

     Net Sales ÷ Avg. Retail value of inventory

171

4. Percentage Inventory Carrying Cost
(Inventory Carrying Cost ÷ Net Sales) x 100

- **Space**
  1. Occupancy Cost per Sq. Ft. Selling Space
  Occupancy Cost ÷ Sq. ft. of Selling Space
  2. Sales per Sq. Ft.
  Net Sales ÷ Sq. ft. of Selling Space
  3. Stock per Sq. Ft.
  Net Stock ÷ Sq. ft. of Selling Space
  4. Percentage of selling space
  (Selling space in sq. ft. ÷ Total space in sq. ft.) x 100

- **Employees**
  1. Net Sales per full time employee
  Net Sales ÷ Total no. of FT employees
  2. Space Covered/ Customers Served per Feet Employee
  (Total Retailing Space /No. of customers served) ÷ Total no. of FT employees
  3. Labor Productivity
  Total Labor Cost
  _____x 100
  Net Sales

14.7 Summary

The exterior and interior of a store has to be maintained well since they convey several messages about the store to the consumers. The building that houses retail store, (whether new or old) and the exterior design of the store are important aspects of the design of the store. Marquees, walkways, entrances, doors, display windows, the height and size of the building, colors and materials used, and theft prevention are some of the key factors to be kept in mind while maintaining a store's exterior. Maintaining the façades of the store is very important for the success of retail of the store as it is enhances the shopping experience of the customer. Cost-effective and efficient **store maintenance** is very critical to ensure smooth running of retail business. The successful implementation of store operations is crucial to achieve the long term objectives. Operations management includes – Cash management, Inventory Management and shrinkage prevention.

14.7 Self -Assessment Questions

1. What do you mean by retail store maintenance and discuss its importance.
2. Describe the elements of store maintenance.
3. Write brief notes on:
    (a) Operations management
    (b) Facilities management and maintenance
    (c) Cash management and store checkout
4. Write a note on 'Store Operating Parameters' in detail.

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Unit 15 - Store Manager

Structure of Unit

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15.0   Objectives

After going through this unit you would be able to:

- Understand the concept of store and its management
- Point out various internal environment components affecting store operations
- Know the responsibilities of store manager
- Learn the skills required for a successful store manager
- Learn and appreciate the significance of store management

15.1   Introduction

Different activities are undertaken at the retail stores to satisfy the needs and wants of the customer thereby retaining the customer for the life time. With the mushrooming of the retail stores and as the shoppers delight is being added up in the stores the need of store managers has become very important. Every day new chains of stores being adding up in the industry, the need to manage these stores is becoming the need of an hour. The day-to-day operations of managing the store is duty of the store manager, successful store managers have the ability to lead and motivate employees as well as should have an eye for the details. Store management involves all the disciplines necessary to run a successful business.

15.2   Retail Management and Store Manager

Retail management is not only about creating revenue for the company but also about understanding the merchandise, expense, and human resource. One should monitor these three elements before generating revenue through into retail management. For this the retail industry demands a lot of good store managers that can implement marketing strategies and boost the sales.

There are certain propositions on which retail store needs to create some principles of distinctive service. In a retail store a store manager helps in implementation of these proposition, which are as follows:

1) Identifying key customers and listening and responding to them.
2) Defining superior service and establishing service program.
3) Setting standards and measuring performance.
4) Selecting, training and empowering employees to work for the customer.
5) Recognizing and rewarding accomplishments.

Identifying the key customers and listening and responding to them

The retailers need to identify its customers and prioritize them. This job can be efficiently handled by the store manager. He with the help of his team identifies the key customers of the retail store and easily prepares a chart of the trends of buying of customers - as on which occasions they buy the most or least. The customer can be serviced regularly on the basis of the framework prepared by the store manager. He is also involved in customer profiling which means understanding the needs of the customer in a better way. It helps in developing better relationships with customers who buy merchandise from store.

Needs, wants and expectations of customers change at various stages, the change in lifestyle, income or location would result in the change of their needs and wants which in turn will lead to change in their expectations. These trends are closely monitored by the store manager and a close check is kept on the changing expectations of its customers due to change in demographics of the customer.

Defining superior service and establishing a service program

The store manager defines parameters for each category of store services. It is also ensured by him that these parameters have been clearly defined and communicated to the persons within the store.

Setting standards and measuring performance

Once the key customers have been identified the need of linking them to the business objectives takes place. Followed by the need capturing, analysing, measuring and tracking the performance of the store on various parameters is undertaken. The store manager ensures compliance with the targets but also improves the credibility of the store by meeting or surpassing them every time the standards are set.

Selecting, training and empowering employees to work for the customer

The superior services can only be rendered if the workforce is dedicated and empowered to make decisions. Staffs are a major resource in any business, this is particularly true in retail industry, which has a large number of employees who provide a range of services to its customers. The retail human resource environment has its special features: a large number of inexperienced workers, long working hours, highly visible employees, many part-time workers and variations in customer demand which creates difficulties to retailers.

A large number of inexperienced workers in a retail business may lead to high employee turnover, poor performance, lateness and absenteeism. Long working hours may lead to the retailers to have two shifts of employees. Training needs to be on the customer skills, communication and product skills. Empowering employees to make decision is a method of vesting a large amount of responsibility.

Store manager plays an important role in identifying training needs and proposing the trainings for his team. Developing the employees and subordinates help both their firm and themselves. Effective subordinates increase the retailer's sales and reduce operating costs of the store. Developed employees may also prove to be an effective replacement of the store manager when he is promoted.

Recognizing and rewarding accomplishment

As money is an important factor for most individuals, recognition of the work done and praise can go a long way in motivating employees to put in their best. Store manager lays special emphasis on this and often recommends for awards like 'Employee/Salesman of the Month' to boost the morale of his sales team.

15.3   Store Operations and Store Manager

To keep pace with rapid advancement in technology, the growing awareness among the customers and competition, the store managers in recent times have a clear blue print of all the retail operations like store format, size and space allocation, personnel utilization, energy management, store maintenance, renovations, inventory management, store security, technology intervention, crisis management.

If the retail organizations have to success in long run then the operational areas needs to be managed well. Before going for a change in the store it should be carefully reviewed and tested so that once the technology is introduced in the system then it should be helpful in managing the store.

In order to ensure a smooth flow of operations at store level, it is necessary that the management defines processes and has the people and resources to implement them. For the easy and speedy dissemination of knowledge to staff, store operation check book and manual is provided to the *store manager*. It consists of a complete document enlisting the tasks, roles and authorities of different personals needs to be carried out at store level and also the time frame in which these tasks needs to be accomplished. It is very important for efficiently and effectively running the store.

The key components of store operations are:

1) Conducive ambience.
2) Store Security
3) Customer services
4) Managing Receipts
5) Conducting promotions
6) Inventory Management

These factors can be explained as follows:

Maintaining Conducive Ambience

Everything goes with the Mood, with the addition of entertainment in shopping the sales has been propelled. It also includes the store operation & security of store premises, choosing the colour of shelfs and walls, the type of floor, entry and exit all comes under ambience.

In retail locations, store managers are responsible for visual merchandizing. Although many companies communicate how to merchandize their stores using direction such as planograms to indicate product placement but the managers have a varying degree of autonomy in deviating from corporate direction. It is always

important on the part of store manager to ensure that stores are compliant with the company's brand image. Managers must ensure that the proper amount of inventory is displayed for customers to purchase, by ensuring that the shelves and racks remain stocked and that product is frequently rotated out of storage areas. Managers are also concerned with \shrinkage, and must ensure that merchandizing techniques and customer service skills minimise the possibility of product being stolen. Some considerations should also be taken into account while choosing the store operating hours. The place or location of store is considered as one of the important factor while deciding about the business hours. Store manager should fix the operating hours in accordance with the store location and in compliance with local rules and regulations. If the store is located within the shopping mall then store have to go with the operating hours of the mall but if the store is independent i.e. it is situated in the city or in shopping centre then the store manager may decide the operating hours as per the local trend..Operating hours also depend on the type of store whether it is a grocery store or an apparel outlet, if it is a grocery store then the store should open early morning till late in the evening on the other hand if it is a garment store then they can open a little late in the morning till late night.
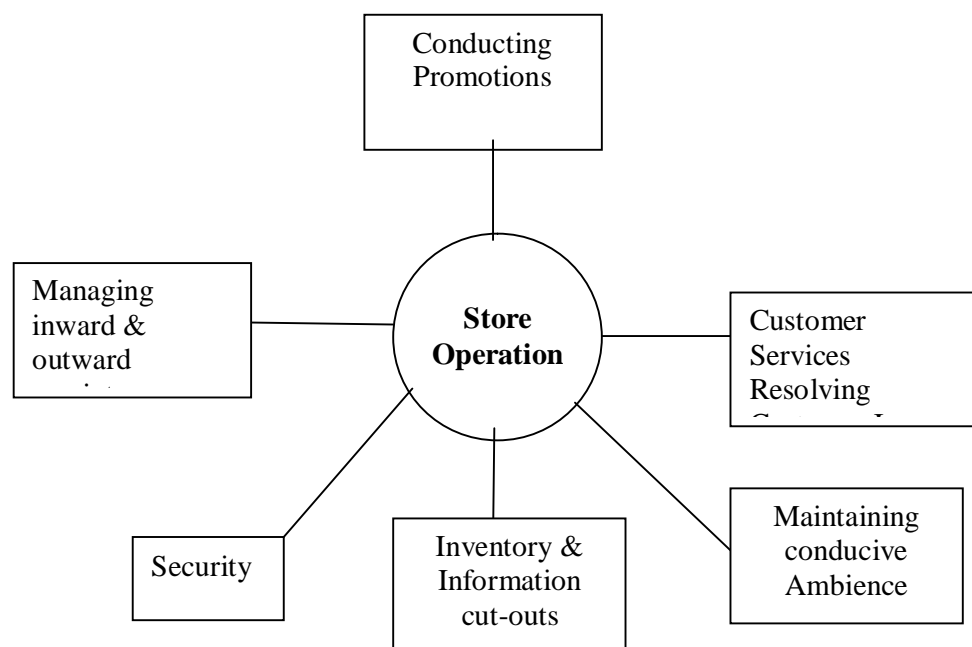
Figure 16.1 : Store Operations

Security

Security is a major issue that has to be taken great care by the store manager. As with the increase in size of store and location the level of security changes accordingly, security of store premises and of the merchandize in store is important so that the pick and run cases could be avoided. Inventory loss or shortage may arise due to theft by employees, customers or by errors while putting in the database. It should be controlled and taken care of by the store manager by adopting different measures.

177

Customer Services

This is service policy is actually formulated by the top management, but is to be followed by the every person working within the retail store, as these service does not end at the customer service counter in the retail store. Each person at the floor has to ensure that the customer who comes in contact with him or her is comfortable and has pleasant shopping experience. Store manager has to regularly and continuously imbibe this feeling in them.

Problems like long waiting lines, dislocation of products from shelves, missing price tags can also become the factor of dissatisfaction in the customer. In order to avoid them store manager has to make proactive action like arranging additional billing points, boards to guide the customers about the location of products they need, customer assistance points etc. He should also ensure that all the queries, requests, complaints, comments of customers are taken care of.

Managing Receipts

Merchandise sent by any supplier after the security clearance comes to the respective store. The document carried by the carrier, known as Delivery Challan, is checked against the copy of the Purchase Order placed on the supplier by the retail organization. The adequacy of merchandise received and its quantity is verified under observation of store manager.

Sometimes quality control tests are elaborate and time consuming. If the policy of receipt is to unload the material subject to quality control acceptance then this material is kept on the hold till it is cleared by quality control department. If the material is rejected it is sent back to the supplier after clear documentation. All these activities are supervised and controlled by the store manager.

Conducting Promotions

Promoting the products and events on the floor are nowadays becoming the part of retail marketing scene. Many a times, retail stores hire specialized people or tie up with the local partners to promote certain products or services, this has to be managed at a store level by the store manager.

Inventory Management

He ensures availability of merchandise and services by approving contracts; maintaining inventories and see that sufficient inventory is available at the store to avoid being "out of stock". He also secures merchandise by implementing security systems and measures.

Cost Control

Apart from the above components of retail operations the store manager controls the expenses by application of cost effective policies and thereby increase profitability of the store.

15.4 Duties and Responsibilities of the Store Manager

As we have studied that store manager is the person ultimately responsible for the day-to-day operations and management of retail store. All employees working in the store report to the store manager.

The major duties and responsibilities of Store Manager are:

- The main responsibility of the store manager is to take good care of the daily operations of the store. The task of this manager also depends on the location and size of the store. The schedules are set by the store managers and they also maintain the inventories, design store merchandise layout, ensure the client satisfaction, and report their work to the regional manager. Day to day responsibilities includes the customer issues, i.e. the store managers are responsible for all the queries, requests, comments, and complaints of clients of the company.

- The store manager has to continuously look for the new ways that can improve the sales of the store by meeting the sales targets, analyzing the figures, and forecasting volumes with proper strategies.

- He looks after the HR issues of training, recruiting, motivating, supervising, and resolving all safety, health, and legal problems associated with the store. He acts as a link between the management and the staff. He plans and designs the displays for the store too.

- It is the duty of Store Manager to successfully run the stores, the main aim of the Manager is to maximize profit while minimizing cost. Store Managers ensures the promotions are accurate and match with the company standards, staff is fully versed on the target for the day and excellent customer care standards are met. Depending on the size of store and company structure, store managers are also responsible for dealing with HR, Marketing, Logistics, Information Technology, Customer service and finance.

- Store Manager has to get involved in all the business activities like special occasion display, road shows, contests etc. carried out so as to successfully run the retail store.
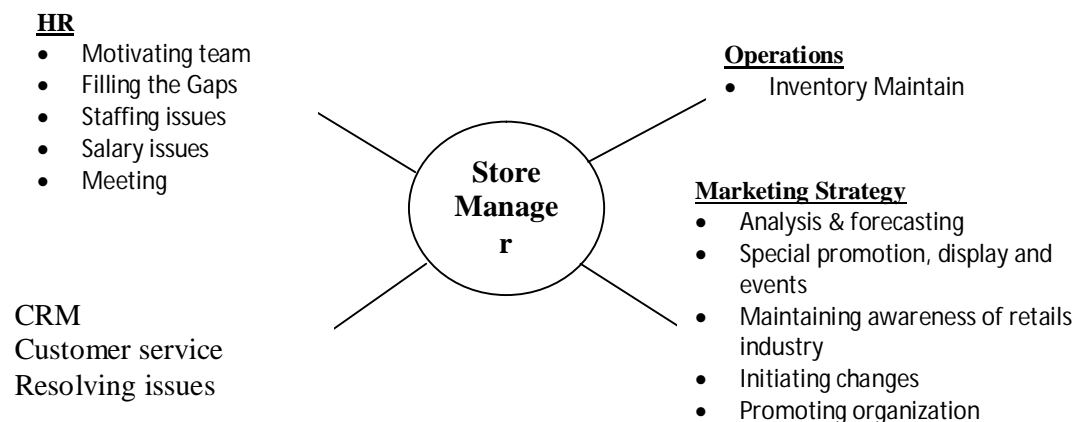

Figure 16.2 Duties and Responsibilities of Store Manager

The duties and responsibilities of the store manager can be categorised as follows:

Staffing : Store Manager should also be involved in the practice of staff selection and appraisals. It is the duty of Store Manager to ensure that there is right kind of person at right place i.e. while interviewing the potential staff the Store Manager should closely look into the hidden potentials of the staff.

179

While undergoing the process of recruitment the outmost care should be taken as the goals, desires, skills and education of the prospect should be in line with the organization. It is the duty of a store manager to recruit , select, orient, and train the employees, as this is the most crucial part in the retail process because the behaviour of this resource is unpredictable and in the different situations it reacts differently, so in order to prepare the employee for all types of situations trainings like soft skills and behavioral training should be imparted to them from time to time.

Controlling: Another important store manager responsibility includes keeping a check on the operational requirements of the store in general. Store manager has to keep an eye on every aspect of operations of store so that the store can run without having any lacuna in it. From time to time it is the duty of the Store Manager to chalk down the performance review of the staff. He should gauge the performance of the staff periodically; so that it in case there is some deviation from the desired thorn it can be resolved by providing the right kind of training to the personal.

Store manager assigns the tasks to different employees and schedules the feedback of results.

Motivation: The primary challenge for retail industry managers at all levels is to keep employees motivated to perform at their best levels of productivity and excellence. Store Manager has to get involved in motivating and learn from time to time so that the motive of the front runners or front line staff do not get deviated, so it is the responsibility of the store manager to jump into frequent motivational meetings to keep their spirits high.

The Store Manager manages the motivation level of employees and keeps them highly engaged in contributing to the success of the organization.

He also ensures the standards of quality are maintained in the store. Setting standards for performance not only ensures compliance with the targets, but also helps improve credibility every time standard sets are met and surpassed. This is the stepping stone to customer delight. At the same time, the inability to meet target helps identify gaps in service that can be rectified.

Budgeting : A sound financial strategy is the basis of any successful business, the same is true for the retail. The success of the retail depends on the two key issues : the ability to manage assets and ability to manage cost. To the investor in the business, financial performance is an indicator of the health of the organization, analyzing the financial performance is necessary for knowing about the gaps in the targets, identify the opportunities for the improvement , to evaluate the past and present performance. So it is again in the hands of the store manager to clearly depict and escalate the true picture to the top management. It is the duty of store manager to achieves financial objectives by preparing an annual budget; scheduling expenditures; analyzing variances; initiating corrective actions.

Forecasting : It is one of the important parameter that is given due weightage in retail setting. Business owners and managers make use of modern data-gathering techniques to optimize retail delivery of products to the customer base. Forecasting in retail involves utilizing existing data to predict future events and more specifically, consumer behaviour. Existing data and market research varies by the types of products a retailer sells, but the basic means of forecasting in retail

follows similar patterns, even across different product lines. The store manager identifies the current and future customer requirements by establishing rapport with potential and actual customers and other persons in a position to understand service requirements.

Inventorying : Inventorying is the overseeing and controlling of the ordering, storage and use of goods that a store will use in the production of the items it will sell as well as the overseeing and controlling of quantities of finished products for sale. A business's inventory is one of its major assets and represents an investment that is tied up until the item is sold or used in the production of an item that is sold, it also costs money to store, track and insure inventory. Inventories that are mismanaged can create significant financial problems for a store, whether the mismanagement results in an inventory glut or an inventory shortage. Ensuring availability of merchandise and services by approved contractors, maintaining inventories is again in the hands of store manager.

Promotion : It encompasses the paid communication activities other than advertising, public relation, personal selling that stimulates consumer purchases and dealer effectiveness. It includes displays, contests, sweepstakes, coupons, frequent shopper programs, prizes, samples , demonstrations , referral gifts and other promotional routines. The store manager determines additional need of sales promotion, authorizing clearance sales by studying trends and markets He finally implements the devised marketing plans by top management in order to meet the firms marketing objectives. at the local level.

Security : The store security relates to the two basic issues: personal security and merchandise security. At times it is seen that the employees and the shoppers feel less safe on account of the the locations of the store, some people are unwilling to shop at night, malls are becoming the centres of vandalism , parking lots and valet parkings are also the source of anxiety for the people who worry in going to the dimly lit parkings. So shop manager should be proactive to handle these types of concerns. Each year a major portion of the merchandize worldwide are lost due to inventory shrinkage caused by employee theft, customer shop lifting, vendor fraud and administrative errors. To reduce the merchandize thefts loss preventive measures should be incorporated by the store manager in stores at the entranceand exit points, dressing rooms and delivery areas. In-store guards, electronic security equipments and RFID merchandize tags should be used and their effective and efficient functioning should be ensured.

Building Store Image: It is his duty to sensibly display the merchandise so that it immediately catches the attention of the customers. The store manager must ensure that his store meets the expectations of the customers and lives up to its predefined brand image. He ensures :

    a. The store is kept clean
    b. Proper advertising of the store
    c. Initiation of online sales provision
    d. Increase in depth and breadth of merchandise
    e. Shelves and racks are properly stocked and products do not fall off shelves.
    f. Mannequins are kept at the right place to attract the customers into the store and rotated frequently.

g. The merchandise should be maintained well according to the season as well as the latest trends.

h. The temperature of the store should be maintained and ensure that the store is well lit, ventilated and offers a positive ambience to the customers.

i. The signage displaying the name and logo of the store is installed at the right place and viewable to all.

j. Reaching target audience by direct mailing and informing customers' through proper channels

Developing : Once the employee has been absorbed in the organization then the main aim is to retain and develop the workforce. Employees have hidden/latent skills so in order to harness these skills, it is important that the new employees learn as soon as possible what is expected of them, and what to expect from others, in addition, learning about the values and attitudes of the organization. The development is an ongoing process and it can be achieved
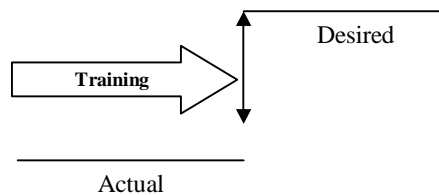
Figure 16.3 : Importance of Training

by the way of lectures, demonstrations, videos, programmed instructions, conferences, sensitivity trainings, case studies, role playing, behavior modeling, competency-based instructions which are facilitated by the store manager.

15.5 Skills Required for Store Manager

Retail is a popular industry, so it's imperative to find out what the demand skills are some roles require a very specific set of skills. For instance, Visual Merchandisers will need to have a creative flair with an eye for three-dimensional design and the ability to translate design concepts into tangible displays that will woo potential customers.

Buyers and Merchandisers need to be analytical, numerate and commercially astute. Whilst Store Managers need to be good all-rounder's – sales people, team leaders, target driven and the ability to juggle a number of different tasks simultaneously.

Regardless of the educational qualification of a person the retail industry recognizes a set of four key competencies

- Business Focus
- Personal Effectiveness
- Relationship Management
- Critical Thinking

These competencies include a range of typical skills that are pre-requisites for becoming a successful Store Manager. They are

- Proven track record of increasing sales and turnover.
- Excellent communication and interpersonal skills
- Good standard of IT and numeracy
- Effective influencing and negotiation skills
- Experience of managing KPIs and performance management.
- Processing sales enquiries to a successful conclusion.
- Able to inspire store staff to keep ahead of the competition.
- Strong customer focus
- Knowledge of working with brands and their guidelines.
- Ability to work under pressure and work with deadlines
- Analysing and problem-solving skills
- Push civic engagement & social responsibility agenda within the store operations.
- Flexibility
- Commercially and operationally minded.
- Strong time-management skills
- Attention to detail
- Ability to increase profitability through excellent service and the effective management of retail space.
- Responding to and comments and resolving customer complaints.
- Demonstrable leadership and management qualities

Above all, Store Manager should be an individual who can use his initiative to look for ways of improving the way things are done, is committed to his employer and is passionate about his sector whether it be fashion, food or cars.

15.6 Summary

Store manager plays a major role in attracting and retaining customers in retail store. Without productive labour, no merchandise and operational plans can be successful. Store managers are the most productive assets in a retail store, who can increase or decrease the stores profit. Being a Store manager is not about being the big boss – it's about earning the respect of others. Basically, it's not so much about oneself, as it is about inspiring and motivating people to achieve great results. Successful Store Managers all have excellent leadership skills and a sharp eye for business. They're also able to coach and inspire others, propelled by an enhanced personal drive. The role of a Store Manager is to maximize the sales opportunities and the profitability of your store, and to follow up on the results. He needs to ensure the highest possible level of customer service and make sure the visual merchandising is executed according to guidelines. The Indian consumers buying behaviour pattern has changed which is creating opportunities in the retail sector. Now the buying capacity of Indian customers has increased, the consumer on an average is younger and is getting influenced by the western countries.

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15.7 Self Assessment Questions

1. Who is a store manager? What do store managers really do?
2. How are the store is operations managed by a store manager?
3. What are the major duties and responsibilities of a store manager?
4. What are the skills required by a store manager?

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Unit 16 - Retail Staffing

Structure of Unit

16.0 Objectives

After completing this unit, you would be able to:
- Understand the significance of staffing in retail environment
- Gain better insights on retail staffing process
- Know various types and options of staffing
- Comprehend the different challenges faced by the retail sector in order to retain its productive employees.
- Know about SWOT analysis of HR and staffing practices in Indian retail sector.
- Gain exposure to the staffing process followed by top retailers in India.

16.1 Introduction

Proper management of Human resource is vital for efficiency of operations irrespective of any organization. Manpower is the retailers' only largest controllable expense and workforce showcase retailers' image to the customer. Efficient management and coordination of human resources enhances the quality of output, efficiency and profitability of an organization. After agricultural industry retail is one of the most prominent sectors which contribute in plunging unemployment. Indian retail sector accounts for 14% -15% of country's GDP and provides over 8% of total employment.

Retailers face a challenging human resource environment characterized by lengthy working hours, highly visible employees, diverse workforce, huge number of inexperienced manpower and shifting customer patterns and demand. These factors complicate the retail staffing process. In the background of such multifaceted factors affecting the retail environment; one of the great needs of domestic retail industry is availability of skilled retail manpower and employee retention in retail sector. The industry is facing a severe shortage of talented professionals, especially at the middle-management level. Most Indian retail players are under serious pressure to make their supply chains more efficient in order to deliver the levels of quality and service that consumers are demanding (Corporate catalyst, 2009).

Human resources are desirable for almost all aspects of retail activities – buying, inventory management, marketing, accounting, selling, customer relationship management, training, packaging and spreading positive word of mouth about company. If the retail staff are not hired and managed effectively, it results in adverse effects on firms' image, turnover, goodwill and profitability. So it is through retail staff that customer service, revenue and brand differentiation are delivered. Better aligning the deployment of the human assets with actual business needs enables a retailer to improve customer service, thus enhancing the customer experience and to control the overall labor expenditure by precisely forecasting and scheduling the retail staffing process.

16.2 Meaning of Retail Staffing

Staffing is the process by which an organization creates a pool of applicants and makes a choice from that pool to provide the right person at the right place at the right time to increase the organizational effectiveness.

1. According to **Theo Haimann**,"Staffing pertains to recruitment, selection, development and compensation of subordinates."

2. Retail staffing refers to the management of employee schedules.

3. Retail staffing involves the functions like recruitment, selection of staff and training and development. It starts from choosing the right person with the right attitude; introducing the employee to the company with an induction programme, performance appraisal and development programme to identify the means of improving efficiency and coordinate the staff movement.

4. According to **Heneman and Judge**,"Retail staffing is the process of acquiring, deploying, and retaining a workforce of sufficient quantity and quality to create positive impacts on the organization's effectiveness. "
The three common elements in the above definitions are namely:

   a. **Acquiring**: It comprises the recruitment processes leading to the employment of retail staff. It includes human resource planning to identify what the retail organization requires in terms of the numbers of employees needed and their attributes (knowledge, skills and abilities) in order to effectively meet job requirements. In addition the selection techniques and methods of assessment to identify the most suitable candidates for a particular job.

   b. **Deployment** involves decisions about how the recruited candidates will be allocated to particular roles according to business requirements of the retail firms. It also deals with the subsequent appointment of the candidates to more advanced jobs through internal recruitment, promotion or reorganization within the retail firm.

   c. **Retention** There is dearth of qualified and skilled manpower at almost all levels of retailing in India with the management of the outflow of employees from an organization. This includes both managing voluntary activities such as resignation, and controlling involuntary measures whereby employees are managed out of the retail organization through redundancy programs or other types of dismissal. The prime objective of retention in retail is to minimize the loss by reducing the cost for retail employers, which in turn affects their competitiveness and profitability of the retail firm. The failure to hire and retain qualified retail staff is costly. So organization of valued employees

186

through efficient retention strategies enables the organization to reduce employment costs. Retention in retail is the biggest challenge when it comes to the senior level and middle-level staff where the sizeable exodus can temporarily throw the entire business out of gear.

16.3 Types of Employees in Retail Sector

Different types of employees in retail sector are as follows:

1. 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. **2. Part-time Employees:** These workers may offer more flexibility in scheduling and cost less than full-time employees, but retailers' should spend extra time in training more people and if they have jobs elsewhere, worker loyalty may be compromised.

3. Temporary Employees: Retailers' usually pay some amount for staffing agencies for 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.

4. 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.

16.4 Retail Staffing Process

The organizational structure of a retail store varies by the size and type of the business. But the staffing process universally remains the same. The major steps involved in staffing process are as follows:

16.4.1 Retail Manpower Planning

Retail Manpower Planning Process: The very first step in retail staffing is to plan the retail manpower inventory required by a concern in order to match them with the job requirements and demands. Therefore, it starts with identification of various tasks, or jobs that need to be performed in the retail firm. This helps in determining the number of people required for various jobs, the skills required and educational qualifications required and the base location where the staff has to be placed. It involves forecasting and determining the future manpower needs of the retail firm. It is also called as Retail Human Resource Planning. Lack of properly trained manpower and people with sales and retail mindset resulted in rise of salaries of experienced professionals, poor productivity for retail industry and subsequently performance. It consists of two types of forecasting namely:

- **Retail Manpower Demand Forecasting**: It determines the human resource mix to be appointed, placing right number of people, right type of people at the right place, right time, doing things right appropriate for the achievement of goals of the retail firm and develop an action plan to prevent shortage of manpower.

- **Retail Manpower Supply Forecasting**: It is the process of estimating the number of staff available from internal and external the retail firm after making allowances for absentees, internal movements, promotions, changes in working hours and work environment.

Stages of Retail Manpower Planning:

1. **Determining the current retail manpower inventory-** The manager makes forecast of the current manpower requirements based on the retail organizational factors like size of the store, number of categories, number of SKU's(Stock keeping units) and level of expertise & skills.

2. **Retaining skilled retail manpower**: Creating a career path, showing employees progress and employee engagement keep retail staff members motivated and engaged are the most effective ways of reducing staff turnover, and retaining high performing employees

3. **Making future manpower forecasts-** The Manpower forecasting techniques employed by the retail organizations are:

   a. **Management Judgment: F**orecasts are based on store level and floor level retail manager's recommendations as per their experience.

   b. **Expert Forecasts:** This includes informal decisions, formal expert surveys and Delphi technique.

   c. **Trend Analysis:** Application of ratios on past data and predicting the future retail manpower requirements through extrapolation (projecting past trends), indexation (using base year as basis), and statistical analysis (central tendency measure).

   d. **Flow models:** This technique involves flow of time required; establish categories, counts annual movements and estimate probable transitions of retail employees.

   e. **Work Load Analysis:** It is the analysis done based on nature of work load in a department, in a branch or in a division of the retail organization.

   f. **Work Force Analysis:** Whenever production and time period has to be analyzed, due allowances have to be made for getting net retail manpower requirements.

   g. **Other methods:** Other methods include mathematical models; retail manpower forecasting done with the aid of computers, budget and planning analysis, regression and new venture analysis.

4. **Developing retail employment programmes-** Based on comparing the current retail manpower inventory with future forecasts, the retail employment programmes are framed and developed consequently, decision will made which programmes will include recruitment, selection procedures and placement plans.

5. **Design training programmes-** These will be based upon extent of diversification, expansion plans, development programmes, etc. Training programmes depend upon the extent of improvement in technology and advancement to take place in retail organization. It is also done to improve upon the skills, capabilities, knowledge of the retail workers.

6. **Planning for future retail manpower inventory:** The last step is to forecast and develop an action plan for future retail manpower requirements.

Need & Importance of Retail Manpower Planning

1. **Strong human relations & Stability of the retail firm-** Staffing function looks after training and development of the work force which leads to co-operation and better human relations which strengthens the firm and ultimately helps in the stability of a concern.

2. **Key to all managerial functions and elements of retail staffing-** All the managerial functions, i.e., planning, organizing, directing and controlling are based upon the retail manpower. Recruitment and selection programmes are also based on manpower planning. Therefore, staffing becomes a key to all managerial functions and forms a basis for staffing process.

3. **Increases Efficiency of the retail firm -** Efficient management of personnel can be effectively done through staffing function. It also helps to reduce the labor cost as excess staff can be identified and thereby overstaffing can be avoided, thus results in increasing the overall efficiency of the firm.

4. **Motivation-** Retail Staffing includes motivational programmes, i.e., incentive plans to be framed for further participation and employment of employees in a retail concern. Therefore, incentive plans becomes an integral part of retail staffing function.

5. **Increases productivity-** Productivity level increases when retail resources are utilized in best possible manner. Shortages and surpluses can be identified so that quick action can be taken wherever required.

6. It helps to spot the talents in a concern and based on the talents training programmes can be aligned and developed.

7. It helps in growth and diversification of the retail firm.

16.4.2 Job Analysis & Job Design in Retailing

*Job Design***:** Job design is the process of structuring the job and designating specific work activities of an individual or group in a retail firm.

Job Analysis: It refers to the process of studying and collecting information relating to the operations and responsibilities of a specific job in a retail organization.   **__ Edwin B. Flippo**

Steps in Job Analysis:

1. **Collecting information:** The first step is to collect pertinent information related to the job. The information may be related to the retail work environment and employee's personality & their demands.
2. **Job Description:** The next step is to describe the job related information in a standard format. As it is been currently performed in the retail store.
3. **Job Specification:** Job specification provides the details relating to the characteristics needed to perform the job in a retail firm.

4. **Reporting:** Finally job analyst prepares the report based on the information collected which indicates detailed activities to be performed by the retail staff.

5. **Approval:** The report is finally reviewed by the HR department and then revised by the retail firms' top executives for policy making.

16.4.3 Recruitment in Retail

Recruitment: Once the standards are determined, the concern invites and solicits applications according to the invitations made to the desirable candidates. It is the process of finding and attracting potential applicants for employment in a retail firm**.** It is the process of searching for prospective employees and simulating them to apply for the jobs in the retail organization.

Sources of Recruitment

2. **Recruitment from internal sources -** is a recruitment which takes place within the retail organization. Internal sources are primarily three - Transfers, promotions and Re-employment of ex-employees. Internal recruitment may lead to increase in employee's productivity as their motivation level increases.

3. **External Recruitment -** External sources of recruitment have to be solicited from outside the retail organization. The external sources of recruitment include -advertisements, other channel members, competitors, employment exchanges, employment agencies, educational institutes (retail management institutes), labor contractors, recommendations, unsolicited applicants (walk-ins, write-ins) etc.

16.4.4 Selection

This is the screening step of retail staffing in which the qualified and suitable store applications are screened out and appropriate candidates are appointed as per the requirements. Selection is the process of differentiating between applicants in order to identify those with greater likelihood of success in the job. Selection is the process of putting right men on right job. It is a procedure of matching retail firms' requirements with the skills and qualifications of people.

Selection Process

1. **Preliminary Interviews-** It is the interview used to eliminate those candidates who do not meet the minimum eligibility criteria laid down by the retail organization. Preliminary interviews are also called screening interviews.

2. **Application blanks-** The candidates who clear the preliminary interview are required to fill application blank. It contains data record of the candidates such as details about age, qualifications, reason for leaving previous job, experience, etc.

3. **Selection Tests-** Various written tests conducted during selection procedure are aptitude test, intelligence test, reasoning test, personality test, etc. These tests are used to objectively assess the potential candidate suitable for the retail job.

4. **Diagnostic Interviews-** It is a one to one interaction used to find whether the candidate is best suited for working in the retail store or not.

5. **Reference checking:** It includes obtaining the information about references, indicated by the person.

6. **Physical examination-** Medical tests are conducted to ensure physical fitness of the potential employee. It will decrease chances of employee absenteeism.

7. **Appointment Letter-** Finally he is appointed by giving a formal appointment letter.

16.4.5 Placement and Orientation

Placement means offering of the job finally to the selected candidates. The newly appointed retail personnels are then given orientation in order to familiarize them with retail organization.

16.4.6 Training and Development

All type of retail jobs requires some type of training for their efficient performance and therefore all the employees, new or existing staff should be trained or re-trained from time to time. Training is a part of incentives given to the retail staff in order to develop and grow them within the retail concern. Along with it, the workers are developed by providing them extra benefits of in-depth knowledge of their functional areas. Development also includes giving them key and important jobs as a test or examination in order to analyze their performances. It is a learning process that involves the acquisition of knowledge, skills, attitude and attitude to enhance the performance of the employees. Training can be given under the following situations:

- ✓ When new candidates join a retail organization.
- ✓ The existing retail employees trained to enhance their knowledge.
- ✓ If there are any up gradations in technology, training is given to adapt to those changes.
- ✓ Training is given to employees for sharing the responsibilities of the higher level job.

Need & Importance of Training

The need for the hour in Indian retailing is efficient training because of the following reasons:

- ✓ Improves retention and loyalty
- ✓ Provides motivation to work force
- ✓ Improves morale of employees
- ✓ Reduces supervision
- ✓ Increases overall efficiency
- ✓ Enhance product knowledge and enables good customer service.
- ✓ Minimizes accidents at work place
- ✓ Increased productivity

Methods of Training

Training is generally imparted in two methods:

1. **On the job training-** In this employees are trained in actual retail scenario. The motto of such training is "learning by doing." Employees get to learn a wide variety of jobs and gain increased insight into the interdependency between jobs and a wider perspective on retail activities. On the job methods include, orientation training, job-instruction training, apprentice training, internships and assistantships, job rotation, coaching, job-rotation and temporary promotions etc.

2. **Off the job training-** Off the job training methods are those in which training is provided away from the actual working condition. It is generally used in case of new employees. Instances of off the job training methods are vestibule training, lecture, special study, films, television, conference and discussion, case study, role playing, simulation, sensitivity training (good for supervisors to understand their employees), programmed instruction (provides information in structured manner, provides performance feedback), laboratory workshops, seminars, conferences, etc. Such method is costly and is effective if and only if large number of employees have to be trained within a short time period. Off the job training is also called as vestibule training, i.e., the employees are trained where the actual working conditions in a retail firm are duplicated.

Training In Action

Computer based training software – It is also available with variety of vendors. For example, Centurion Systems has devised more than 100 training modules that have been used to train more than 1 million retail employees in such ares a POS systems, labour scheduling, customer service, manager training, store operations, merchandise management etc.

Retailers Association of India (RAI) has developed training films to suit the requirements of retailers in different format and categories.It has also tied up with an open university to offer PG-Program

Tata's retail arm Trent Ltd. had tied up with an institution to upgrade its frontend executives through an exclusively developed online certificate program in retailing and awarded the best performers of this training. More than 150 executives participated in the training program from across different formats and centers across country.

Activity A:

Identify two retail firms which adopts the two methods of training. Figure out the reasons and situations for adopting the above training methods.

16.4.7 Remuneration

Remuneration forms an important monetary incentive for the employees. It is a kind of compensation provided monetarily to the employees for their work performances. This is given according to the nature of job- skilled or unskilled, physical or mental, etc.

Employee Remuneration refers to the rewards or compensation given to the employees for their work performances. Remuneration serves as a basic attraction to employees to perform job efficiently and effectively. Remuneration leads to

employee motivation and affects the employees' productivity and work performance.

Methods of Retail Employee Remuneration

1. **Straight SalaryMethod:** Under this system, remuneration is directly linked with the time spent by an employee on the job. The employees are paid a fixed pre-decided amount hourly, daily, weekly or monthly irrespective of their output. It leads to greater security for employee, more retailer control and increased knowledge of expenses. Disadvantages are retailer inflexibility, limited productivity incentive.

2. **Straight Commission Method:** It is a method remuneration is paid on the basis of units or pieces sold (sales generated) by an employee. It is more suitable where the nature of work is repetitive and quantity is emphasized more like sales personnel for autos, real estate, furniture, jewelry etc. are paid by this method.

3. **Salary plus Commission:** It combines the attributes of salary and commission plans. Shoe salesperson, major appliance salesperson are paid by this method.

16.4.8 Performance Appraisal

After selected, training and development the next step is to evaluate the personality and performance of the employee.

It is the process of evaluating or recording the behavior (BARS method), attitudes as well as opinions of the workers towards their jobs qualitatively and also assessing them based on quantitative factors such as targets achieved. For this regular assessment is done to evaluate and supervise different units in a retail concern. It is basically concerning to know the development cycle and growth patterns of the employees in a retail concern. Criterion for evaluation may be:

1. Net Sales by the employee
2. Customers Served per unit Retail Space
   No. of customers served / Total Retailing Space
3. Labour Productivity

   $$\frac{\text{Total Labor Cost}}{\text{Net Sales}} \times 100$$

16.4.9 Compensation and Benefits

Compensation and benefits are a combination of monetary (salary, commission and bonuses) and non monetary benefits (paid vacations, health and life insurance and retirement benefits). It is also termed as wage and salary administration. The main objective is to provide a fair and equitable remuneration to all the employees. Proper compensation and benefits for employees increase productivity and enable the retail firm to boost its corporate image.

The benefits portion of employee compensation especially related to pensions and healthcare is a thorny issue faced by retailers today. It is challenging time due to intense price competition, the use of part time workers and escalating medical costs as retailers try to balance their employees' needs with company financial needs.

16.5 HR Challenges in Indian Retail Sector

1. **Long Working Hours**: The main challenge faced by the HR department in retailing is long time duration. Generally the opening time of outlets is 7.30 am & the closing time is 11 pm. This makes working of employees hectic. They have to stand for the whole day and this creates additional pressure on them, if they are not working on shift basis.

2. **Sourcing Quality Managers and staff:** There is a growing concern for the paucity of trained personnel with the right hard and soft skill sets. Industry feels that going ahead demand for junior management and support staff would increase significantly leading and maximum demand-supply gap would arise at this level. In terms of competency, retail and store operations seems to be the key areas where the shortage of workforce is significant. Some retailers are trying to bridge the talent shortage by headhunting for talent in overseas market.

3. **Lack of Formal Education and need for Training & Development**: India produces millions of graduates every year, they are often not immediately employable as they do not have necessary operational skills both at managerial and store levels. Thus, proactive training is a key imperative for Indian retailers. Organized retail is a new area for employers as well as employees. The participating retail outlets have maximum number of off- role employees & the training emphasis is on the area of sales in order to increase the profitability. As a step in this direction many retailers are partnering with educational institutes to develop specific training programmes for staff.
   For example: Lifestyle has tied up with NIFT (National Institute of Fashion Technology) across the country in sponsoring students for Fashion Retail Management Studies.

4. **Rising Attrition Rates & Employee Retention**: Employee retention is also a biggest challenge for Hr department because retail is in its evolutionary stage. Most of the retail players are working with low profits or at loss. This is one of the reason that they have off-role employees rather than on- role employees. The financial constraints providing the employee retention methods results into high turnover of employees.

5. **Limited Facilities:** The facilities provided by the retail outlets are very limited. The salaries offered to them as well as the incentives & bonus amount is very low. Moreover no other benefits like transportation facility, staff accommodation, food facility at low cost etc are provided to them.

Strength	Opportunity
✓ Industrial Growth rate is very effective. ✓ The HRM practices followed by MNCs are very useful. ✓ Effective use of innovative HRM practices for employee retention. ✓ Retail Marketing is a well known growth sector in the present era of business	✓ This is very helpful in generating employment opportunities. ✓ The Potential growth of Retail sector is accountable about 8 percent of the total employment. ✓ This sector creates approx one million jobs per year. ✓ The qualification criteria are minimum in this sector for employment purpose.
Weakness	**Threat**
✓ Deficiency of skilled and experienced professionals especially at the middle and the senior level management ✓ High attrition, around 50%, leading to focus on continuous recruitment ✓ Continuous need towards skill development of employees	✓ With the opening up of the sector, creation of enough skilled workers to cater to the demand is crucial. ✓ ☐Career progression is a challenge as a majority of the workforce is young and expects good progression. ✓ Attractive compensation at all levels is a critical factor

Figure 16.2: SWOT Analysis of HR Practices & Staffing in Indian Retail Sector

16.6 Case Study

Staffing Process Followed by Top Retailers in India

CASE 1: Pantaloon Retail India Limited

1. **Job Analysis:** Pantaloon Retail Limited is India's largest retailing company which operates multiple retail formats. The headquarters of Pantaloon Retail Limited is in Mumbai and operates all around India and has over 30,000 employees working for over 1000 stores across 73 cities in India. There are three levels of Jobs in any company viz. Entry Level, Middle Level, Senior Level. These levels have their own Job description, Job Specification and the Recruitment and Selection procedure etc.

2. **Recruitment & Selection:** For recruitment the company goes with advertisements and newspaper for walk in interviews. The company chooses reference and consultancies for the recruitment of the employees as one strategy. There are interviews conducted by heads, departmental managers, store managers, HR heads and the team leaders and finally confirmed by BOD's respectively. After all this process done if the person gets through all the interview rounds then he is given his place in the team or the job part for which he/she is fit for. Finally after checking all the

references, if the candidates are found suitable, the offer letter is rollout to the candidate for joining.

3. **Training & Development:** The firm uses "Experiential action learning" to train junior level executive. Employees who are new to the organization are a part in the experiential action learning which may indeed help them to develop a better sense of knowledge which can improve the capabilities of the employee.

   The firm uses "On-the-job training" for middle level executives. In this type of training, supervisors or mentors-who must be very skilled in the work being taught- instruct participants in a hands-on environment.

   The firm uses "Problem-based learning" methodology to impart training to senior level executives. The participants focus on problems with the help of resource person, as required. Training occurs in the sense that the group learns about the problem; at the same time, a solution is developed.

4. **Remuneration:** The firm provides competitive salaries for each job taking into account market rates. The employees will be rewarded based on their contribution. The Salary allocated ranges depends upon the employees position type for employees performing the standard duties of their jobs. Set up maximum and minimum levels within those ranges to account for variations in experience and skill levels. The pay defers from Store Administered employee to Head Office Administered employee.

5. **Performance Appraisal:** Line managers review performance continually in order to assess how a particular employee is doing. It helps employee in assessing themselves and look for further development. Promotion Policy and rules are applied to employees depending upon on their ability of performing work, managing their skills and the level of experience.

6. **Compensation & Benefits:** It includes:
   - ✓ Flexible working
   - ✓ Employees can avail advance of 7 days of all purpose leave during the probation period which will be adjusted in the employees leave balance.
   - ✓ Leave accumulation will be permissible up to 90 days period.
   - ✓ Corporate helpline - A 24-hour confidential support service which help employees to manage stress, personal, traumatic or financial issues which are affecting their attendance or performance at work.
   - ✓ Travel is an integral part of work for many people. Pantaloons offers travel options and expenses so employees can travel in a secure and comfortable manner.
   - ✓ Pantaloons offer following healthcare options to all monthly paid employees and their partners like private health insurance, Gratuity Scheme, free medical treatment for the employee, spouse and the dependent family members. Female employees can have Maternity leave - 84 days maximum on completion of 160 days.

7. **Employee Motivation & Reward Policies:** Pantaloon believes in sharing its progress and profitability and reward accordingly. They offer a range of benefits which are service-related, so they build up as service of an employee increases. Each element of the benefits package is reviewed regularly to ensure it remains competitive and maintains pantaloon as a leading employer.

8. **Career Development:** Pantaloons provides the employees the scheme named "Seekho" which enables them to develop their skill sets and opt for any educational courses so that they can increase their productivity which adds additional value for the company development in future.

Pantaloon Retail (India) limited is not only an organization but it is an institute which provides its employees an opportunity for learning which helps in development of the company. Pantaloons always welcome change in fashion by thinking out of the box. It promotes a working environment free from discrimination, harassment and victimization. Employees are given importance to be open in their thoughts and requested to give their opinions for the organizational success. Pantaloons most innovative concepts are now considered as the base line in the retail industry.

CASE 2: Marks & Spencer's

Learning and development: Front line staff are assigned for individual development plans. Staff receives comprehensive training on several operational and organizational strengths. Employees are assessed at assessment and development centers.

Career Development: Staff receives 360 degree feedback and are also aware of future career paths. Current leaders at corporate headquarters and store managers are asked to train, coach and develop the next line of leaders.

Performance and reward: M&S uses a competency based performance management system, reinforces company values and prescribes behaviors. M&S also offers performance linked pay and a range of financial and non financial rewards, such as individual contributors and team contributors.

Comprehensive range of people practices like people engagement, uniformity in systems and processes, clear and transparent communication comprise the workforce management programme which enabled Marks & Spencer to move closer to its goal of becoming an employer of choice in the Indian retail sector.

16.7 Summary

Manpower showcase retailers image in front of customers. It is important that retailers' ensure that right person is appointed at right place. Retailers must conduct intensive planning and management of the recruiting process to fill positions quickly and control staffing costs. An effective, well developed and planned staffing processes enable retailers to achieve impressive operational results. Attracting and recruiting the best talent enables hiring superior workforce. So it is here where improvement efforts must really begin. If retailers improve their proficiency in sourcing and recruiting talent, companies not only save time and financial resources, but gain competitive edge.

16.8 Self Assessment questions

1. Explain the process of staffing in a retail scenario?
2. Why should retail personnel be given training? Discuss the various methods and importance of training?
3. "Employees are the face of retailers'', explain the importance of human resources and proper staffing in retail sector?
4. Enumerate by taking an example of a retail firm how improper staffing leads to failure of the organization?
5. Explain the process of Manpower planning and how it aids in minimizing costs and improving overall efficiency of the retail firm?
6. Briefly discus the various sources of recruitment in a retail firm?
7. Imagine you are a HR manager of a retail firm, discuss how the process and criteria for selection of a candidate at various levels would differ and why?
8. 'Remuneration increases employee performance and motivation', elucidate with relevant examples?

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Unit - 17 : Technology and Retailing

Structure of Unit

17.0 Objectives

After completing this unit, you would be able to:
- Understand the concept of Technology in Retailing
- Indentify the Need of Technology in Retailing
- Analyze the usage of Technology in Brick & Mortar Store
- Analyze the usage of Technology in Online Retailing Store
- Identify the importance of Mobile in Retail Industry
- Identify the methods of Retailing to maximize the Customer's Satisfaction

17.1 Introduction

The retail industry is something which works at the mercy of regular customers and the store managers have to work on every nook and corner just to decrease the cost and increase the sales, because the retail stores have to work on very low margins. Technology can play an important role in decreasing the running cost of store as well as it manages the customer effectively. The remarkable improvements have been done in Billing process, Inventory Management, Customer Handling, Supply Chain Management and other theft and loss prevention. The usage of wireless technology and possibility of frequent communication among the people made the business process more comfortable and successful.

17.2 Why Technology is required in Retailing?

The In store shopping experience is still same and there is not much things which are there in category of drastic changes such as we can still see the clerk standing near selves and counters and the goods are as it is displayed in wooden and glass almirahs as the basic changes are such as that, the cash boxes and coins are replaced by credit cards and cash registers but the basic process of retail industry

is very much same. The new technology in Retailing is required which is necessary for the next level of retailing:

Technology is required to automate the Customer's Experience: The new technologies such as RFID must be applied in retail stores so that the customers can find their way to particular place where the needed product is located and also the customers can make proper research about the product and also compare the prices of various products.

Consumers wants more transparency: Earlier the consumer use to ask for particular good and the sales man behind the counter use to show certain options and the consumer has to choose out of that only but now the consumer wants that, the clear transparency in their choices. Now the consumer wants that, they can actually go to product store area and can pick every product and after analysis they should finalize any one.

More Personalize and Engaged Service to Consumers: The online retailing stores should give more touch and feel experience, as certain stores are planning that, they will deliver the product on the same day of order and in case if somebody does not like the product then the product can be returned at that moment itself.

17.3 Technology in In-store Retailing

Although there are various Retailing techniques are available but we are segregating the technology in three separate categories so that, we can make the technology useful for customers as well can understand the usage of technology as per the importance:

17.3.1 In-Store, Kiosk, Display of Products

Usually, the main in store retailers use three different types of display methodologies which is not guided by Internet or Computer usage. The device displays the products to customer on the basis of requirement fed by consumer and also helps in searching the exact location of the product. The product explains all the detail about the product, be it is shape, size, prices or any other usage detail.
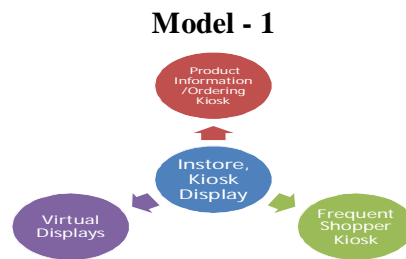
Model - 1

Figure 17.1 : Display Methodologies

Product Information- The product information providing device appears like a computer screen which is very easy to use and the device helps the customer to search the product easily and in fact provides information about the other products in the same category. The customer has to feed her requirement and if the product is available in the store than the device designs the map and inform the customer about the location of the product.

Frequent Shopper Kiosk – The frequent shopper kiosk is a videogame kind of large set which are usually placed at the entrance of the retail store and the customers are provided with a card which is called as shoppers' card. Whenever the customer is suppose to enter in the store, he has to make entry of his card in frequent shopper kiosk and the device will show the customer about his all the past transactions along with his preference pattern extracted out of the past purchases. The customer has to make further entry for his next requirement then the frequent shopper kiosk will not only guide customer to the required product's location but also explain about the new offers, opportunities, and free gifts and also shows the loyalty points.

Figure 17.2 : Frequent Shopper Kiosk

Virtual Displays- The virtual display retailing possess the quality of online retailing within In-store. The virtual display boxes are big computer like screen which are placed at entrance of the store which shows the virtual pictures of all the products available in store. The customer has to use the 3-D spectacles which are provided by the store manager. The customer has to put that spectacles and use the Joy Sticks and controller button to select the product's virtual image.

The customer can enlarge the image and can view from all the angles. Once the product is selected from the virtual space after that, the customer transfers that virtual product into virtual shopping basket. Once the customer is through with his shopping, then the store worker will finally deliver the product to the customer at cash counter.

The kiosk usage is very much easy and helps the customer for better and suitable shopping. Approximately 60% of the regular customer does their shopping with help of these advance technology and rest others also make shopping via these technological means but they are not regular shoppers.

The consumers do accepted that, these technological means make shopping faster, easier and simpler in all case. These technical devices help in easy locating the products and as well as saves them from long queues and rush and at the same moment the customers also accept that, the devices are very limited and they have to wait in queue for using them.

201

17.3.2 Other In-Store Retailing Devices

The other In-store retailing devices are also in trend but they are not available at all kind of retailing store as well these devices are beneficial for certain kind of product category only.
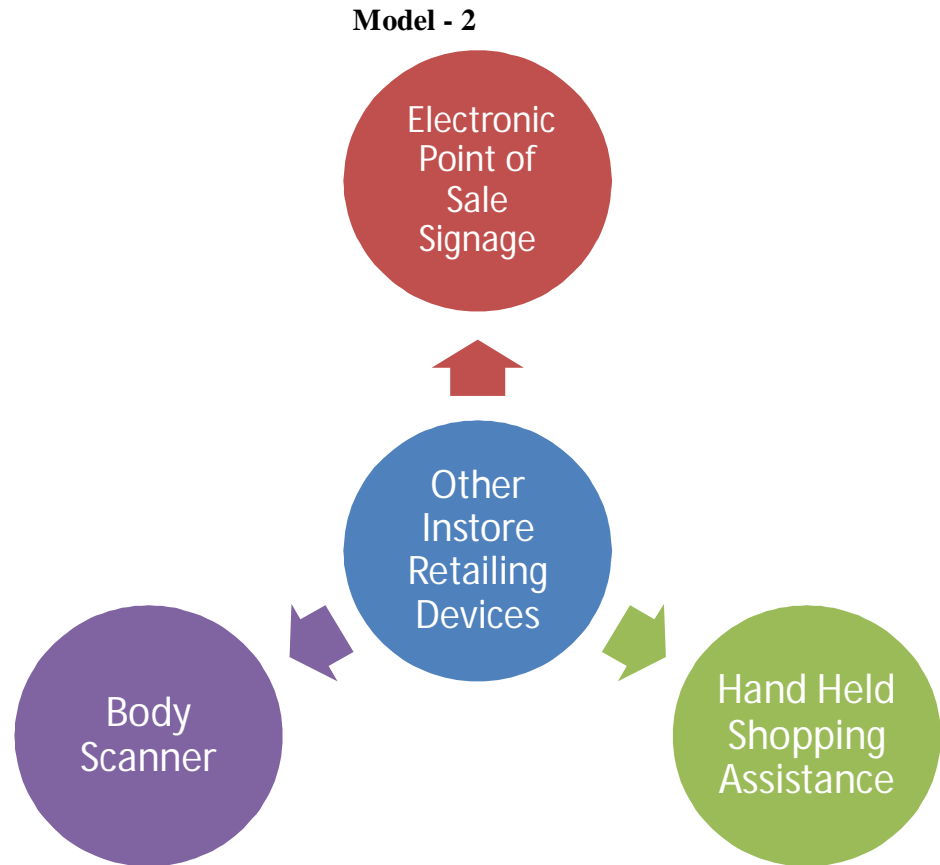
Model - 2

Figure 17.3 : Other In-store Devices

Hand Held Shopping Assistance- The hand-held shopping assistance is a kind of device which appears like a Tab and works with the finger touch of customers and in fact extracts the barcode of product also. The customer can even feed the barcode of the product; the device will read the barcode and will analyze and show the location of product along with all the details. The device provides the other information too, such as operating instructions, usage issues etc.

Figure 17.4 : Hand Held Shopping Assistance

Electronic Point of Sale Signage – The Electronic POS means LCD displays which are placed at every merchandize store at every merchandize selves, which displays the product located in every shelf. The Electronic POS shows the product detail along with quantity, prices and usage of the products. The information in those POS is transferred by central information computer of store and also every sold item will be entered in the digital register also to maintain the smooth flow of inventory and supply-chain management.

Body Scanner- The body scanning is a kind of measuring instruments mainly used in Merchandize stores which can take accurate measurement of customer. The measurement take by body scanner is more accurate than Inch Tape etc.

Figure 17.5 : Image Created by Body Scanner

The retailer can inform the customer about the exact body measurement according to which he should buy the clothes. The measurement can be stored in smart card which could be used further for the information purpose. The body scanning machine is just like a bathroom size small room, which is similar to trail rooms in Merchandize stores. The customer can enter in that scanning room, the computer takes the 3-D picture of customer and store measurement in smart card. Once the customer's measurement is stored, customer can actually see the virtual picture of him wearing same cloth which he has ordered after feeding the detail of garment and colors.

All the above mentioned devices, Electronic POS, Hand Held shopping assistance and body scanner received the overwhelmed response from the customers as well as from the retailers themselves. Each device has its own benefits along with certain negatives also. The devices may make the shopping very easier and also the suitability of the product offered by the device may be accurate but there is also threat of device failure or the store may not able to use the device properly. As we know that all the devices are electronic and controlled by computers only, then there is higher rate of slow system working grievances noted from the customers.

17.3.3 In-Store Checkout Technologies

The usage of technology is not only limited to selecting the products and ordering them but also the technology is important at the time of completing the final procedure in any shopping. Technology plays an important role during the checking out process of Shopping:
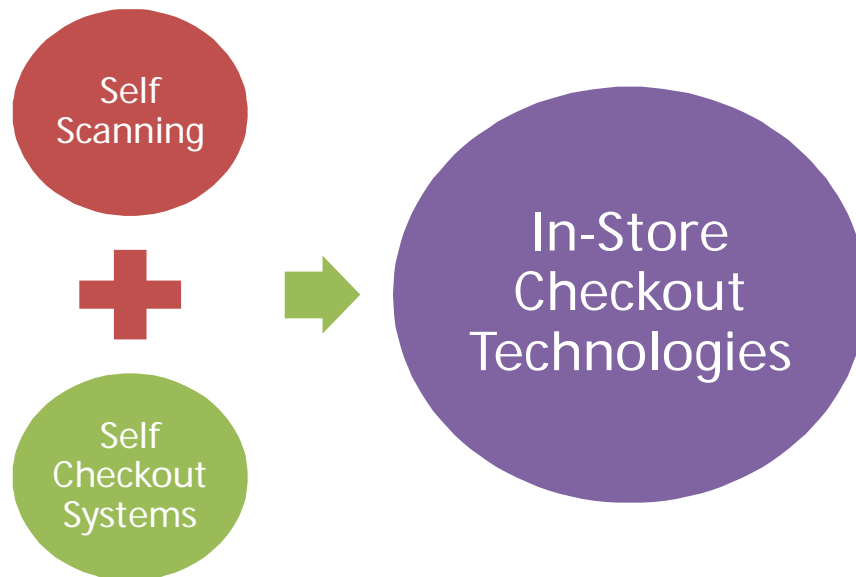
Model - 3

Figure 17.6 : In-store Checkout Strategies

Self-Scanning – The self scanning system is a kind of hand-held device similar to Mobile phone in size which is a customer use to scan the product which he has ordered and confirm the prices mentioned over the product and the price charged at the time of payment.

The device is connected with a computer monitor screen where the prices and detail of product appears. The customer can check the product prices and other detail over the monitor. After all the scanning, computer shows the running total of all the products and finally prints the bill slip. The customer goes to payment counter and shows the bill and makes payment. The final process is that, he checks out of the store.

Self Check Out System – The self checkout system is like a small station which consists various devices such as ATM (Automated Teller Machine), Barcode Scanner, Weighing Scale, Overhead CCTV Camera and also the check stand location.

The customer first gets all his products scanned properly after that machine generates the bill and directs consumer towards the ATM side. The consumer inserts his debit or credit card for payment, after payment the customer gets the bill and finally customer gets the delivery of all his products from the other side.

The self scanning and self check out system shows almost same properties but the self check out system is more technical with no human power use. The self checking system is generally used by the consumer themselves without any help of any other person, but the self scanning system is little more simple and short process for checking out. The study shows that, maximum numbers of consumer are more comfortable with self scanning system rather than self checkout system.

Figure 17.7 : Self Check-out Station

17.4 Technology in Online Retail Store

The study has been done to understand the online retailing process and the different methods of online retailing has been checked out from every point if view be it, the 'Traditional methods or the advance methods, the main point which came out is that, every online retailing require that, the consumer must possess a computer system in right working condition along with the access of internet connection.

The online retailing portal all the minute detail of product such as specifications of the product, way to usage of the product and warranty information, the site also provides the information about the prices and also the same category of product in different price range of colors.

Since last few years, it has been seen that, certain online websites also provides the information such as that, how many products belongs to particular category has been sold and what is the overall response of the particular product line. The customer can not only compare the prices of all the products but also can connect the other shoppers and discuss about the results of products.

Online Shopping Websites- The online shopping sites are oldest form of retailing in terms of online selling. In fact, today also, this retailing format is considered as most appropriate. The product information along with product picture gets displayed at the monitor screen from the catalogue. The customer clicks the image and can view the product from every angle and once he is satisfied, customer selects the product for final closure of shopping. The website asks to put the product for shopping basket, once the customer accepts it, later on payment detail start displaying over the computer screen. After making payment the online selling company takes time for 3-4 days for the final delivery of the product. The online shopping stores provide the convenience of shopping at any point of time.

Online 3-D Virtual Retailing Stores- This kind of online retailing stores provides the convenience of shopping with touch and feel experience. The consumer can view the store from monitor screen just as that he is moving in any retail store. The consumer can feel walking in the store with help of mouse click button guiding him in virtual store. Consumer can pick the product from aisles put that into shopping basket. The consumer can view the product from the entire dimension with close look. After selection of all the products, customer clicks for final shopping cart and the customer is redirected to payment link. After payment, the store takes 2-3 days for the final delivery of the products.

Online Retailing Information Sites- The online retailing information sites is something which does not deal in direct sale purchase of the products but it simply assist the consumers about the available various stores in any particular area according to the choice of customer. The site asks the information regarding the customer's choice of product and suggests them product wise retailing stores. The site provides information about the product range available in any particular retailing store along with minimum to maximum price band and the working hours of the stores. Indirectly, we can say that, the website act as yellow page dictionary where any store can get itself registered.

Now a day, customers are not very keen to go store to store simply to pick a particular kind of cloth stuff but their shopping experience has been delighted by some technology which provide them maximum information in minimum time. The customer can shop online at any point of time with the convenience of timing but the greatest dis-advantage is that, it does not give touch and feel experience.

17.5 Benefits of Technology in Retailing

Initially, the technology was considered just for calculation or networking purpose but now the complete working infrastructure can be developed via technology. The wifi technology not only supports e-mail, web-browsing, file server access but also the other application such as Inventory Management, Supply Chain Management etc. In fact, the technology provides various added advantages such as:

Mobile Point of Sale – Initially, the customers use to go to physical store and get the goods for themselves after that, they have to go to cash counter to make payment but by the time, the cash counter services are not sufficient and the customers have to wait in long queue for their payment turn. Due to un-ending queue system, customers are getting dis-satisfied and they started leaving store without making any purchase. But, such long queues and dis-satisfied customers can be called back with help of technological advantage:

- A complete mobile point of sale stations can be established, where customer can get the facility of self scanning of goods, calculation of grand total and finally there should an ATM machine where the payment can be made. But, such system may not be very successful during high sales volume period but at that time small counters managed by sales person can also be established to manage the large number of customers.

- There can be possibility of having handheld computers which the sales person can carry and walk here and there in the store. The hand held computer should have system to make credit card payment along with possibility to draw small bills in chits. Whenever, the customer selects any product, he can contact the nearest sales person and can make the payment at that moment only and get the final bills. But, this system may create certain problems with customers such as they may not get chance to rethink about the product again.

Inventory Management- Managing inventory is the one of the costliest process in any retailing store where every product have to manage as per their quality and quantity. The inventory detail have to entered in software when the containers been received and there has to timely removal from the stock when those products been sold, the proper tracking must be there. The store manager must know that, the quantity of every product must be with him at just one single click so that, he can check out that, when the order of any product has to be placed and from where. The accurate inventory situation must be there so that, mis-management of any product can be avoided. As per the research done by Grocery Manufacturers of America (GMA), that, approximately 8% of the shoppers do not find the product they are looking for in right quantity and out of those 8%, 40% of the customer starts visiting another store. The inventory manager must take care that, there should be no such situation of 'Out – Of- Stock', as it hampers the brand

value of store and not only this, the customer tends to switch to other retailers. The reduced out of stock situation also helps in developing better customer satisfaction and customer value.

The inventory can be managed via certain improvement in technology, such as, the shipping area must be connected with wireless and hand-held technology and every product carton must have a particular barcode which should get automatically scanned by the technology when the product gets sold. Various retailers use SAP, DEX/UCS (Direct Exchange/Uniform Communication Standard) where the inventory details have been fed by entry clerk in software and at the time of billing of the product the software automatically reduce the inventory of sold product. But, this system may fail, in case of theft or damage of products.

Customer Service- The technology can be beneficially used to develop the healthy customer relationship. The main issue of customers is that, the long queue at payment counter and other that these two major issues are the pricing problems and the other problem that they do not find any attendant near kiosk to help them to search suitable product for them and hand held computers and wireless technology can help to overcome these problems. The wireless technology can help the customer in both the issues without any need of store assistant. Sometimes, whenever any customer goes to any retail store, he usually find certain difficulties regarding assessing correct prices, because of promotional offers, mis-managed price label or missing price tag at that, the hand held computer system can help them to determine the right price of products. The hand held computer system can also help the customer to find the products, at any nook and corner of store when he feed the item information in computer.

The wireless can also help customers to obtain various answers of the questions which usually they want to ask to store attendant. The hand-held computer can be attached with a voice enabled-device, which can assist customers regarding their queries. The customer need not require moving in store section to section just to search store attendant.

Voice Communication System- The retail store fails in absence of the proper communication system and in such case the walky-talky system of radios are used in such stores and for this, there can be two processes. In one, the store can use licensed radio frequencies which are paid but free from hackers and other one is unlicensed radio frequencies which the store can use but the frequencies can be easily hacked by any hacker and may create disturbance in communication system of store.

The wireless LAN system can be established in store, so that, the communication can be free flow and there is no requirement of any paid assistance as well as free from hacking issues too.

Price Management- With continuous inflation, the retailer has to change the pricing of goods by the time and for this, he require complete timing to do the new process. The study shows that, the changing of pricing require a whole new setup, and for changing price tag of 800 products, approximately team of 15 employee will be required who can work for 6 hours night shift and the maximum time is wasted in taking printout of new price tags and running from selves to printer and again tallying the things that, whether every product shelve has been covered or not.

The management can do certain easy steps with technology, so that, the extra burden can be avoided. The handheld computer with small attached printer should be provided to every store attendant at the beginning of every shelf. The attendant will move from product rack to rack and can change the price tags in very small time.

The price auditing is also required time to time, so that the old pricing can be revised and if any new promotional offer is required then that offer can be implemented. For this, the hand held computer can be useful with the facility of barcode reading. The barcode can help in determining that, the prices have been changed and checked.

RFID System- RFID system has gained a huge applaud from Retail industry in last decade as this technology has done a remarkable job in managing Inventory, logistics and customers, but still there are certain back lags in these technologies. Now days there are two type of RFID process is used, Active & Passive RFID system.

Passive RFID system is in expensive as compared to active RFID system. As it use certain tags and stickers on which has to be sticked on every item, so that the tags can be scanned by the RFID system? The passive RFID system does not require battery and helps in tracking inventory and managing each choke point.

Active RFID techniques are expensive and larger as compared to passive RFID technology. The active RFID technology requires LAN system for its operation and must be connected with certain other devices such as barcode scanner, Computer systems and Wireless LAN. The active RFID technique require single networking route and can scan the products approximately upto 45 meters. Active RFID technology is very useful in determining the location of inventory and tracking its resources and route.

Outsider's Internet Access- Now a days, various retailers have started providing free internet service in their premises to customers for their laptops, mobiles, and other devices, so that, the customer may feel more enticed as well as he get the reason to stay more in cafes, book-stores as well as in certain malls also. The store manager has to take care that, the customers must be provided with separate networking and must not entangle with secured network of store itself. During the working time, the store employee may transfer certain confidential information which should not be leaked to the outsiders.

Wireless Video System- The retail store must be connected with proper television monitoring system and the video must be recorded by certain camera which must be operated by wireless video system. The networking between monitors and video camera must be based on LAN so that, the monitors can be placed at any point as per the convenience.

17.6 Enhancing Customer's Experience

During the customer satisfaction survey by various retail stores found that other than long waiting time at payment counters there are two other major issues which the customer faces are product information and price determination. The most appropriate technology here is Electronic POS signage and product order hand held system which helps customer in determining the prices as well as provides

the product information. These two technologies have been accepted by the customers wholeheartedly.

Although, no technology can be self-sufficient in all the terms and act as 100% customer satisfaction reason but as per the survey, the most of customers have addressed that, they would like to have self hand-held computer system with scanning device, so that they can search products as pet their requirement in their own price range without any help of attendant. After hand held scanning device, the other most voted technology is frequent shopper kiosk which also provide the service which helps in tracking the required product from store without wasting time to search the product manually.

There are certain customers who want that, the virtual display systems should be little more effective and can help in guiding customers for the required product. The electronic POS system has received the highest number of voting where customer have suggested that, these technology must be improved upto certain level. The customers who actually visits merchandise stores are very much satisfied with body scanning devices. As customers address that, the body scanning device is very convenient as it helps in getting correct measurement of clothes.

17.7 Mobile in Retail Industry

More than 50% of world's population is using mobile phones and the future of mobile is very bright also as people are moving towards smart phones with internet connection from ordinary phones. But, customers can use the same mobile phone which they use for communication purpose for making shopping also. The customer can use phone for the below mentioned purpose:

- Drafting shopping list
- Mobile phone can have scanning device also to scan barcodes
- Mobiles can access promotional offers too.

Mobile Phones can be beneficial for consumers also:
- Mobile phones can help consumers to track the product easily and also to determine the actual price value along with the consumer can also search the promotional offers also and even now make mobile payment too.
- Consumer can access right information at right time and can save himself in getting into any trouble

Mobile Phones can be beneficial for Business also:
- The retail stores can increase their sales as if they apply mobile friendly techniques and customers will more tend to shop, as they will not find any difficulty.
- The customer satisfaction and loyalty of customers will also increase as the customer will find more convenience in shopping.
- The retailer will not require spending money on certain other technologies such as frequent shopping kiosk or handheld computers as their work can be completed by mobile phones only.

  The mobile applications can be used for various beneficial purposes and we can think to develop certain applications that have been mentioned as follows:

	Gift Coupons Mobile phones can be used to manage the discount coupons and also must have certain alarm point so that, customer can get the detail when he can redeem the points		**Store Navigation** Customers can easily find the product's location with help of store navigation application in mobile phones.
	Self Scanning System In spite of searching for free hand-held scanning device in store, consumer can use his smart phone to scan the product's barcode and make the final checkout.		**Advertisement & Publicity** Retail store can collect the mobile data base of consumers and sent information about new changes in store directly on the phone of customers.
	Loyalty The customer can manage his loyalty points in his mobile itself in spite of carrying the plastic loyalty card.		**Drafting Shopping List** Customers can draft the shopping list on his phone itself, so that, if he forgets anything then phone should send the beep and message.
	Packaging Benefits Customers can obtain more detail about the product just by scanning the product's barcode and can get detail via internet.		**Mobile Payments** Various banks have started service known as mobile payment, where customer can make transaction via mobile also.
	Store Location Although, this application is already available in mobile phones where customers can search the store in any locality.		**E-commerce** Consumer can in fact place order to retail store via mobile and also can make payment through mobile.

17.8 Summary

All the consumers are different with different tastes and learning attitude along with different requirements also. But still, we can discuss that same technology may prove to be beneficial for large number of customer category. Now a days, we find two different category of consumer group, one who believes in using high-end technology so that, they can complete their complex task in minimum period and at the same moment, the other group can be those who find technology is more complex as compared to physical labour. The goal of technological advancement in retail industry is to bring both groups together with certain easy to use applications. During shopping the main purpose of technology is that, consumer can use it without getting troubled. The retailer have the capability to touch large number of customers at single platform at same time, at that time, the retailer can educate them regarding the new technologies and their applications.

17.9 Self Assessment Questions

1. What do you understand by 'Technology in Retailing'? How it is useful?
2. What is In-Store Retailing & Online Retailing? Explain the difference between both retailing methods.
3. Explain various steps of In-Store Retailing with small examples.
4. Explain various steps of Online Retailing with small examples.
5. How Technology is beneficial in Retail Industry?
6. Draw a real time case study on Retailing Technology, where customers get benefitted out of implementation of such new techniques?
7. How customer experience and their satisfaction can be motivated?
8. What is your view regarding application of Mobile phones in Retail Industry and how it is beneficial to customers as well as retail stores?

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Unit - 20 FDI In Retail

Structure of Unit

20.0 Objectives

After completing this unit, you would be able to:
- Understand the fact about Foreign Direct Investment
- Analyze the Effect of FDI in Retail Industry
- Indentify that, how FDI will affect Indian Retail Industry
- Analyze the Benefits of FDI in Retail
- Conduct SWOT analysis of FDI in Retail sector
- Identify the challenges of FDI in Retail Sector as well as suggesting certain policy recommendations.

20.1 Introduction

India was economically liberalized in 1991 and after that, it has achieved a major front in terms of attractive force for retail industry. India's major population lies in middle class category with effective purchasing power which is attracting major global retail industries but unlike any other foreign nation, India is not in hurry to open up the retail sector for foreign investments. Recently, under the Congress government, the signals been showed that, now there may chances that, global Retail giants such as Wal-Mart, Carrefour, Marks & Spencer's etc. could open up their stores in India too.

Foreign Direct Investment in retail sector is restricted but since 2006, the government showed certain leniency towards opening up FDI in retail sector by allowing 51% of stake in single brand retail route only. Foreign Direct Investment in single brand retail sector was first time crashed in 2007-08 and as the India's population is growing by no leaps and bounds, so soon it gained the lost value. Now, the retail sector is growing with growing rates:

Growth Rate in Consumption of House-Holds in India

213

Category	2005-06	2006-07	2007-08	2008-09
Food & Beverages	11.7%	11.1%	13.0%	10.4%
Clothing & Foot wears	18.0%	25.0%	7.7%	5.2%
Rent, Fuel & Power	10.5%	12.5%	14.2%	16.6%
Furniture & Appliances	17.7%	22.2%	19.4%	9.4%
Medical Care	10.1%	10.1%	10.1%	10.1%
Transport & Communication	10.6%	14.1%	9.3%	16.5%
Recreation, Education & Culture	12.3%	12.9%	18.3%	13.3%
Miscellaneous Goods & Services	12.9%	27.1%	29.7%	29.0%
Total Private Consumption Expenditure	12.0%	14.8%	14.1%	14.2%
Estimated Retail Trade Sales	**12.4%**	**14.9%**	**15.1%**	**12.5%**

In last decade, the retail industry has seen its best time regarding substantial growth and evidences have suggested that, once the large retail chain will enter in the market the substantial benefits will be available to consumers also in terms of lower prices and quality products.

20.2 What is FDI?

Foreign Direct Investment refers to inflow of capital from foreign nations as invested in particular sector for its productivity growth. Although, Indian government has announced the single brand FDI in retail sector but it was technically implemented in November 2011. As per the governmental implication the FDI rule in India is here below:

- 51% in Multi Brand Retail
- 100% in Single Brand Retail

FDI in Single Brand Retail

As per the governmental interventions, 100% Foreign Direct Investment can be applicable in Single brand retail conditions:

- ✓ Only one brand of product can be sold

- ✓ The brand which is sold in India should be sold under same brand name globally

214

✓ Only certain identified brands are considered as single brand product

✓ For opening up any retail store in India, the single brand giant has to seek certain permissions from Government.

FDI in Multi Brand Retail

FDI in multi brand retail refers to selling numerous brands under one umbrella and currently only 49% of the capital stake is invited from the foreign retail giants. But the multi brand FDI policy in other nations may differ:

Multi Brand FDI Policies in Other Countries

FDI Limit	Country
100%	China
100%	Thailand
100%	Russia
100%	Indonesia

*source- TOI, 3rd Dec 2011

Invitation to Multi Brand Retail stores under FDI means that, invitation to Wal-Mart, Carrefour, these stores offer various multi brand products to households as what a *kirana* store offers.

20.3 Current FDI Policy

Currently Indian Retail industry is very much discrete and not organized but again this is the second largest employable sector in India with more than 40 million people engaged with this sector but now, Indian government is planning to organize this sector by opening this sector for foreign retail organized giants with the way of Foreign Direct Investment. The government has sanctioned about 51% of the foreign brand stake in India for the umbrella of multi brand FDI such as Wal-Mart, Carrefour etc and 100% FDI stake for Single brand products such as Gucci, Nokia, and Reebok etc. As per the current policy the multi brand retail giant can open up their stores only in those cities which have population more than 10 lakhs as per census of 2011 and the decision is pending against Union cabinet in terms of opening up these stores in smaller towns. In September 2012, the government of India announced the opening of FDI in multi-brand retail, subject to approvals by individual states.

The key highlights of FDI Policy which was launched in September 2012 are as follows:

✓ 51% of FDI is allowable in Multi Brand Retail segment but for this, proper government approvals will be required.

✓ The agricultural products which were considered as unbranded may be traded via the retail giants.

✓ Minimum $100 Million has to be invested

✓ 50% of the capital has to be invested in strengthening the Bank end operations, so the below mentioned steps can be improved:

- Processing

215

- Manufacturing
- Distribution
- Improvement in Designing
- Quality
- Packaging & Forwarding
- Warehousing & Storage

➢ Minimum 30% of the products for the store have to be procured from small scale industry.

➢ Government of India has the first right to procure Agricultural product after that, the foreign retailers can procure.

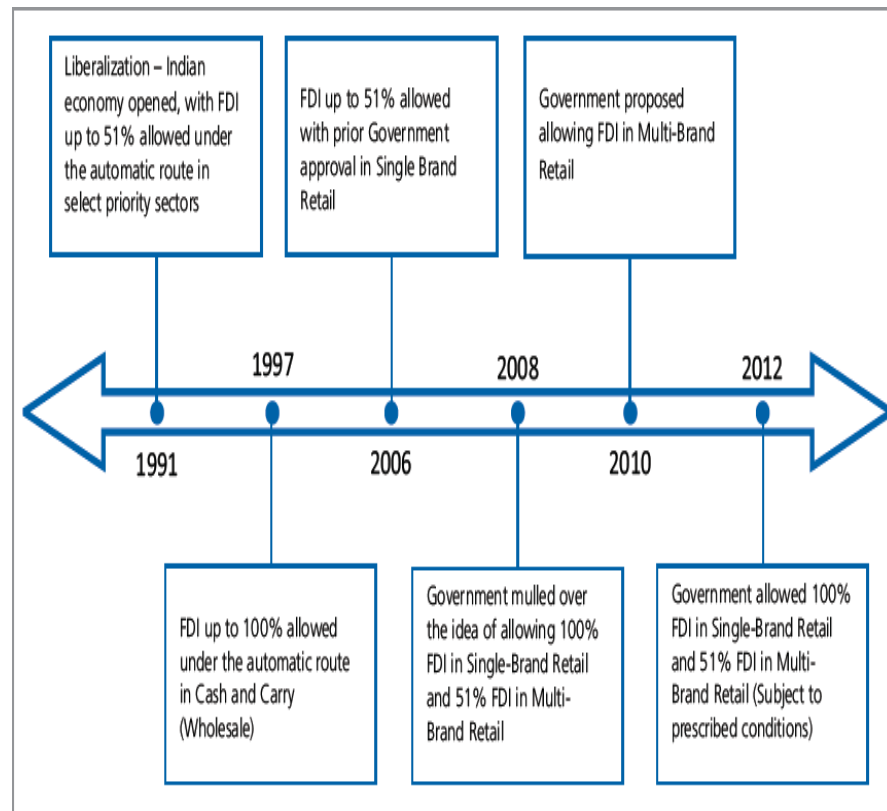➢ E-commerce retail trading is not applicable for multi brand retail giants.

Figure 20. : FDI Policy in India

On 19 Feb 2013 Tamil Nadu became the first state in the country to resist MNC 'invasion' into the domestic retail sector. In Chennai, Tamil Nadu CMDA authorities placed a seal on the massive warehouse spreading across 7 acres that had reportedly been built for one of the world's leading multinational retail giants, Wal-mart. In February 2014, Vasundhara Raje led newly elected Rajasthan Government reversed the earlier Government's decision of allowing FDI in retail in the state. It reasoned that the sources of domestic retail are primarily local whereas international retail affects domestic manufacturing activity and hence reduces employment opportunities.

20.4 Concerns for FDI in Retail Sector

Indian citizens showed their dis-interest in welcoming FDI in Retail sector as their concern was impact on employability. Currently 40 million people of India is engaged in Retail sector and this sector is second largest employing sector but people have concern that, once the retail giants will enter in the market, then their livelihood may vanish.

Employment Share in Retail Trade, since 1993-2008

Years	Rural		Urban	
	Male	**Female**	**Male**	**Female**
2007-08	5.6%	1.7%	18.8%	8.6%
1993-94	3.63%	1.4%	14.6%	6.66%

*source- Chari & Raghavan (2011)

The next concern is that, once the FDI is open for Foreign Retailers then they may create un-healthy competition in the market which will surely lower down the sales of small *Kiryana* stores and the domestic retailer may lose their permanent employment.

The study in Mumbai city shows that, various small retailers have to shut down their operations as the most of the customers were moving towards High-end malls and showrooms and currently there is no planning which may explain that, whether the Foreign Retail giants do have the capacity to absorb the displaced labor.

Thirdly, the concern which was raised by Indian public was that, our own India retail sector is not organized and it is just at the nascent stage, so before opening for foreign retailers, our in house retail sector should be provided enough support to reach at young stage.

Currently, Indian retail sector is too young to compete with foreign retail giants. Although, the Indian policy debate came up with idea that, the smaller unorganized retailer may save their smaller domains but the FDI in retail may be beneficial for the producers who may not be receiving the desired remuneration for their productions.

The study regarding the retail giants in foreign nation has showed the mixed response as the study from USA, shows that, the employment in retail sector has been increased but again the other report shows that, every single Wal-Mart worker replaces 1.4 retail workers by creating 2.7% un-employment and the new store opening of any Wal-mart reduces the average earning of the retailers of the particular area.

Since 1990s approximately due to Wal-Mart's operation, approximately 40-50% of discount stores have reduced their operations. Thailand's economy was crashed in 1990s but the study shows that, the traditional small retailers still have to shut down their operations even after recovery of the economy as the study of Thai market showed that, the Foreign Retailers grabbed the larger share of market by un-ethical means of trading.

Thai government came up to save the left over existing retailers by strengthening the logistics and marketing management of them along with providing soft loans and along with this the government implemented certain strict regulations so that, the uncontrolled market capturization techniques of large retailers.

As per study made by UK's competition commission in 2000, it has been noticed that, the retail giants such as Marks & Spencer's and Tesco's supply chain is strengthen as because of their manpower but the pressure of managing the supply chain fall on small farmers as because of large volume orders and the farmers have to grow single crop to meet the demand where earlier they were growing two – three different crops to avoid the risk.

It has been observed that, the large retailers sell certain products at below market prices which may benefit the customers but it puts adverse effect on small retailers who cannot afford the existing prices and the retailers also adjust the price of any particular prices in separate branches to put the pressure on local retailers.

People Supporting Foreign Retailers in India

The Indian public is strongly negating the entry of foreign retail giants in Indian market with the argument that, the traditional small retail shops in local area will get displaced. In India community two separate retail organization exists, one which is meant for wealthy public and the other which is meant for poor people. After the entry of foreign retailers, the segment which deals the wealthy people may not be affected but the segment dealing with poor people will be adversely affected.

Foreign Retailers will reduce the purchase from Local stores

Foreign big retails will reduce the purchase from local stores
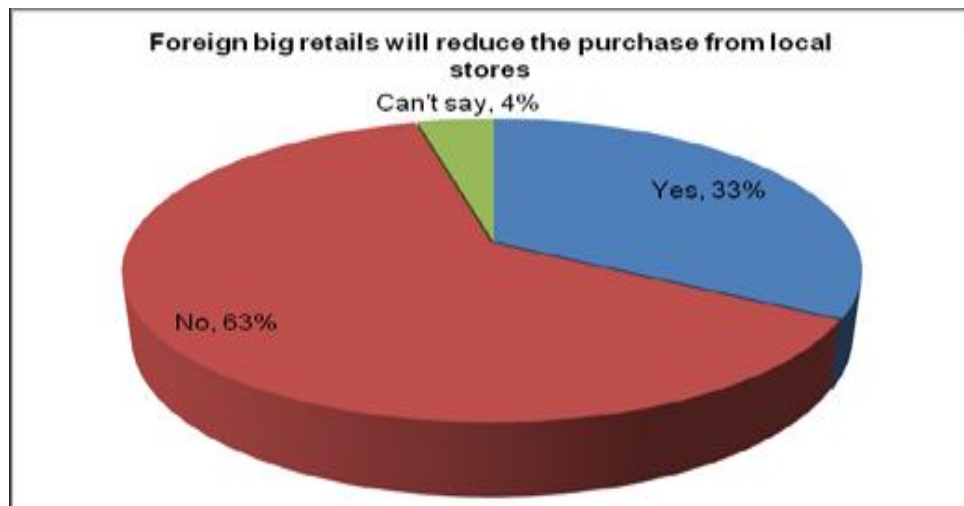
India's 100 crore population may surely not benefitted out of the FDI in retail sector as approximately 40% of the rural population and 50% of urban population depends upon the retail sector to earn their livelihood and the giant retail trade may affect their traditional employment structure.

Around 15 crore people are engaged in retail sector and 45 crore individual person wins their bread because of this sector only and once Foreign Retailer will join the market, their first target will be to eradicate all the existing small retailers from the market and Indian government is not having the capacity to engage the displaced labour from the retail sector in any other employing sector.

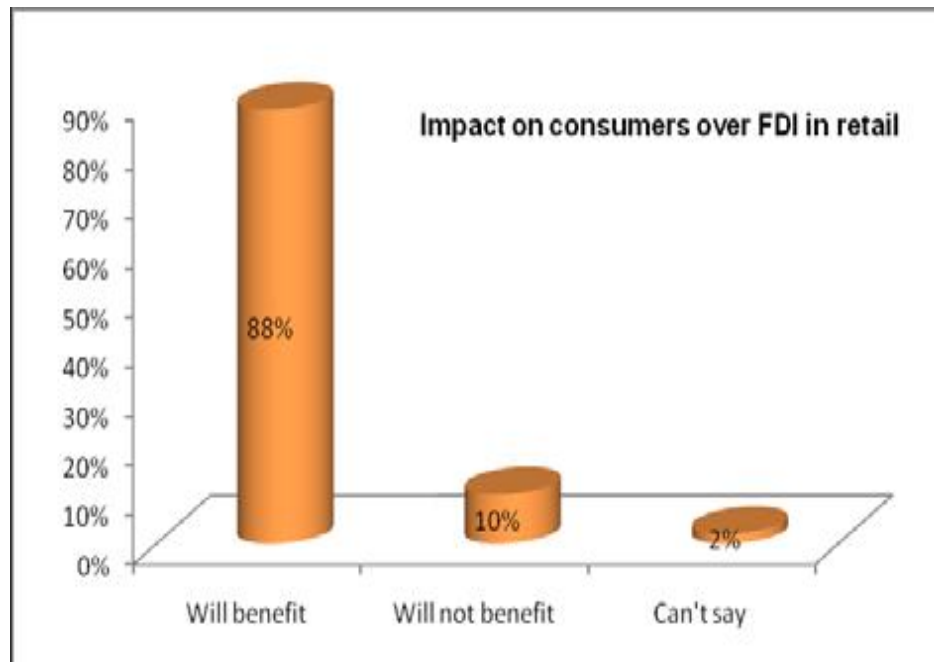### Impact of FDI in Retail over Farmers
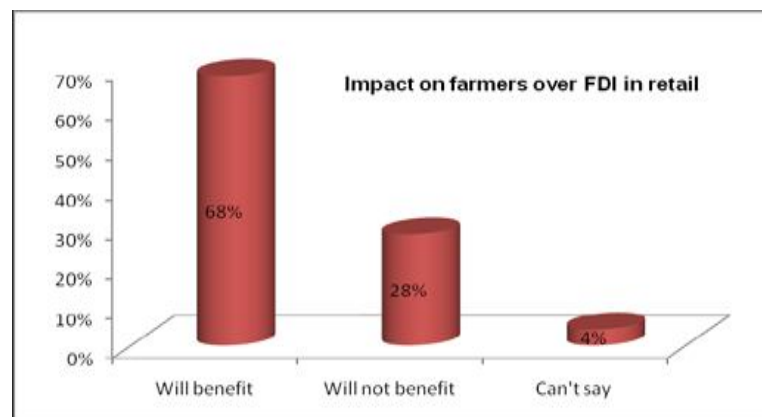
Usually, it has been checked that, the foreign retail giants use to import the huge quantities from the mother nation of retail organization, so the fact that, the producer will get benefitted vanishes here. The FDI proposal suggests that, the retailer has to make 30% of its procurement from the small scale industries but it has not been mentioned in that proposal whether the small scale industry should belong to India or any other nation.

The experts states that, wherever these large retailers have opened up their stores, they have firstly eradicated the existing small retailers from that place. Now, the small retailers cannot be found in developed nations such as USA or UK where these retail giants are already existing.

219

The small retailers have made plea to government that, the governmental policy should support them, so that their operations can be enlarge in spite of inviting foreign giants in India. If the same thing remains as it is then soon the time will come when the country's current retail structure will get vanished. Initially, India invited Coca-Cola & Pepsi in our country, so that they can sell their cold drinks to India population but they completely eradicated the Indian Brand named Campa Cola, now we do not even remember that name.

Impact of FDI in Retail over Consumers

Impact on consumers over FDI in retail

*source- Bisaria (2012)

Impact of FDI in Retail over Existing Retailers

Impact on un-organized retail sector over FDI in retail
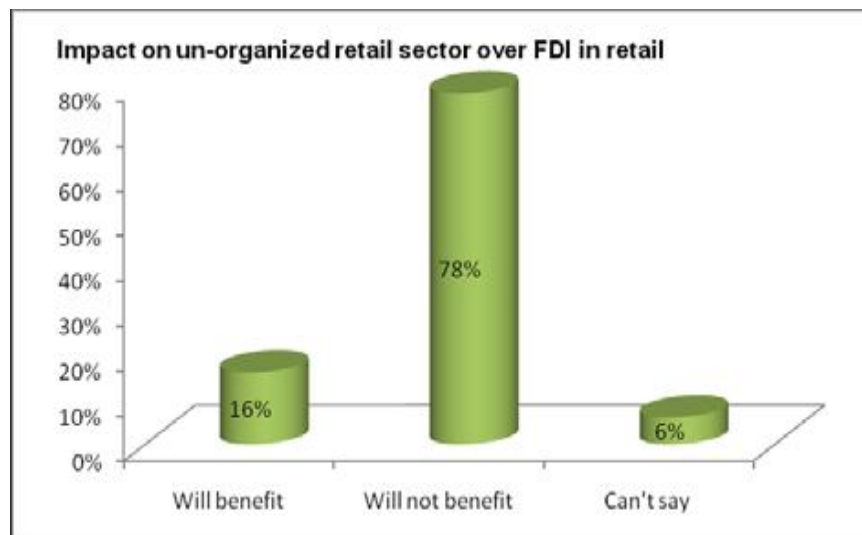
The experts states that, FDI should not be involved in Retail sector but can be invited to any other sector where the direct country's population is not involved

220

such as Power, Infra-structure, Roads etc. As the doors will be open to Foreign Retail giants, the indirect help will be done to China also. China is the largest supplier of these retail hubs and India cannot provide the cheaper goods as compared to China. In India, Power, Labour and all the necessary infrastructure is costly, which will break the backbone of small scale industries of India.

Impact of FDI in Retail over Other Domestic Industries
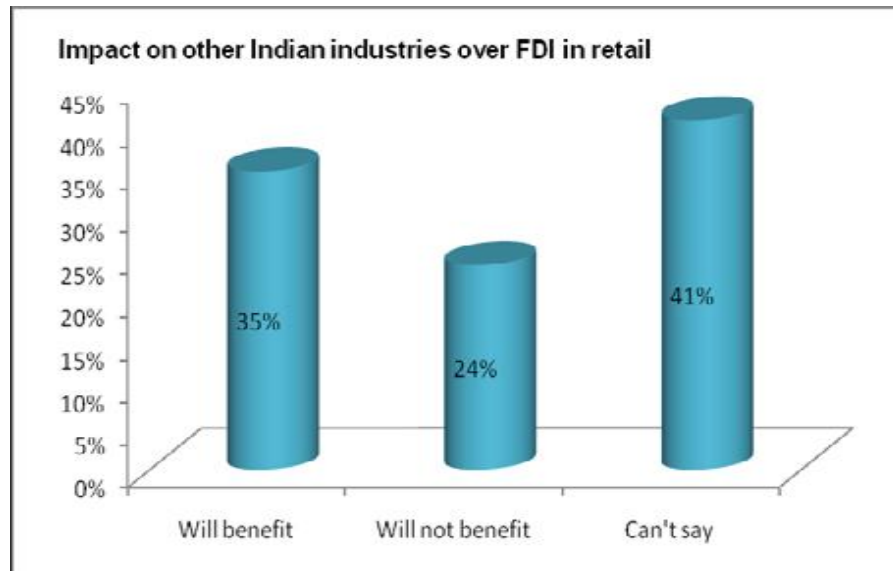
*source- Bisaria (2012)

As per the experts suggestions, India is all time better as Un-organized economy then the orgnaized economy like USA. During recession, only India was able to sustain itself and USA was the worst affected. The big retailers do not create any new market but they displace existing one for themselves.

20.5 Benefits of FDI

Although, Indian public may not be accepting FDI in retail industry but this proposition is favourable situation in certain conditions:

Farmers

The most probable beneficiary of FDI in retail will be the farmers who are not able to get their due remuneration from the market. The farmers will able to increase their productivity and can also get the better reward from the foreign clients. The foreign retailers will buy the products directly from the farmers by paying handsome remuneration to them.

The farmers will able to make good profit out of that, so that the original producer will get the better prices and there will be no requirement of middleman. The large retail giants do have the caapcity to absorb all the products of any farmer and can make the direct payment to their bank accounts. The commission agent can be erased between producer and buyer as it has been checked that, usually the commission agent charge 10-15% of commission on fruits and vegetables.

Consumers

India's most population falls in the category of middle class with purchaisng capacity upto to satisfactory level and now they are looking for low cost products at their own doorstep. The consumer need not to move from one retailer to another retailer just picking certain product now, they can buy all the product under one umbrella and that is also with ultimate comfort. The big retailers often offers discounts, gifts etc time to time, so that the consumer can be retained till long.

Taxation Revenue

Currently, the un-organized retail sector is mostly not registered with Sales Tax or Income Tax department. Although, they are earning huge profits but the proprietors of these retail outlets do not pay due taxes, due to which India is suffering in terms of Taxation revenue. Once, the sector will get regularized, the avoidance of VAT, Service Tax and Income Tax will be less and economy of India will automatically rise.

Partnership Program

The FDI in retailing provides one more opportunity, ie, now Indian resident can also apply for partnership, as currently, Indian government has opened up for only 51% of the FDI and for the rest of 49% of capital, the foreign retailer has to look for Indian partner.

Boom in Job Market

As the economy grows and sector will get regularized, the job opportunity will also increase. As the modern retailers will increase, the opportunity for jobs will also increase. The current set up of retail sector in India does not require high qualified workers but once the things gets organized, then they will be demand of retail managers, floor managers, logistics and technical staff. The new jobs will be created for both back end and front end staffs. The youth of urban as well rural will get the adequate jobs and there will be requirement of semi-qualified males and females. The youth will get good salary opportunity also and the professional approach will be given to every customer. Such ventures, provides support in terms of training youth for dealing with customers also. In this way, the youth will secure certain educative value too.

Supply Chain Management

The organized retail sector will bring efficiencies in terms of managing store house and inventory from wastage and damage. It has been checked out that, approximately 35-40% of parishable products get wasted every year because there is no proper storage system as well as transportation system. The large retail house will have direct tie up with farmers and they do have the experience of managing huge amount inventory too. The giant retailer will manage the transportation accordingly and will make sure to avoid the wastage at minimum.

Indian Population

India consists maximu population under the band of Middle class tag and they will surely get benefitted, once the foreign retail giants steps in India. As these retailers are known to sell products at very lesser cost and provides luxurious services and experience to the customers. These retail house may fulfill the aspiration of any middle class person and they can buy the branded and cost effective products from these retail houses.

Technical Know-How Sharing

India's maximum retail sector is un-organized and whosoever tried to come up with any organized plan, they have mostly failed or kept their operation at very minimum. The fact, points out that, may be we do not possess that knowhow to manage such huge retail groups but this knowhow can be gained from the operations of these foreign retail giants.

Educational Institutions

As the organized sector will grow, they will be requiring professionals and educated staff and for this the demand for trained and specialized staff will rise and to overcome this demand, the government can open up new educational institutions.

Regulation on Inflation

As per experts, FDI may help in regulating Inflation issues and the fact that, Big retailers will end the small retailer is also not true. As already there are certain organized retail house such as Spencer's, Big Bazar are there but the existence of small retailers are still there.

20.6 SWOT of FDI in Retail

SWOT analysis will help us in analyzing the FDI in retail from four different opinion and may help in reaching the best possible conclusion.

Strengths
- The Economy will grow faster
- Job opportunity will increase and young and dynamic people will get their dream jobs with handsome remuneration and specially female gender will get more opportunities to grow.
- As more and more Large retail outlet will be in the area, then customer need not to travel a long distance to grab the branded products.
- Farmers and Transporters will get the opportunity to increase their revenue and productivity.
- Middle class customers will get the taste of luxury and personalization during purchases.
- High Marginal growth in Retail & Wholesale trade.
- The big retail house will have the high inventory managing capacity.
- Customers will get branded or better products at lesser price, they will have the benefit of additional income also, which they can save from the price difference offering between large retailer and Kiryana shop.
- The big retail houses will have the capacity to absorb lossess from any particular store.
- Large Business houses can offer large variety of products.

Weaknesses
- The foreign retailers are investing very low capital from their end.
- Currently, the large retailers are capturing metro city based consumers only, they are still not in touch with village or small town based customers.
- Large retail chain are still suppose to decide that, what type of products they are suppose to place in their selling racks.

- The retail outlet size offered in India is not upto the international standard. Usually, the area allocated to retail outlet is maximum 500sq. ft. only.
- India is not in position to supply trained and educated workforce for retail industry.
- The large retail house will eat up the competition in the market.
- The sales volume in Indian retail industry is not upto the mark.
- More prices as compared to specialized shops.

Opportunities
- As per the research, it has been found that, India is the fifth largest attracting point for foreign retailers as there is lucrative chances of growing GDP at faster rate.
- After FDI, the retail industry may become the largest employment source.
- The detoriating condition of farmers can be revived without affecting the rural retailing.
- Competition can be improved in terms of quality and fast delivery process.
- The retail industry's efficiency will be increased.
- Huge inflow of foreign capital
- Sharing of Technical and managerial knowhow.
- Retailers will fight for quality improvement and will try to cut the maximum cost.
- Export capacity will be increased and trade deficit of India can be reduced.

Threats
- The small and local retail outlet may vanish
- Jobs in manufacturing sector will also vanish
- The bargaining cannot be possible.
- The work will be done by Indians and they will get small chunk of profit in terms of their salaries only and the major profit will be transferred to foreigners.
- The main issue related to supply chain management regarding parishable products can be complex due to lack of infrastructure and investments.
- All segment of society cannot be covered.
- Current, super market and hyper markets are already providing value, variety and volume to the customers.
- Heavy investment is required at very initial level.
- There are certain cases pending against Wal-Mart in US, related to avoidance of certain mandatory rules and regulations related to labour laws.
- The taxation system may not be uniform in organized retail.
- Problems of availability of right parking area in these retail outlet is always a major concern.
- Sector requires permanent staff only, they cannot hire staff on contract basis.
- In India, unorganized is still dominant over organized sector.

20.7 Policy Recommendations

Indian government has mentioned various rules and regulations regarding FDI in retail sector but there are certain recommendations for the foreign based retail organization.

- The public private partnership should be introduced, so that, Indian population can accept the foreign retailers in overwhelmed way.

- APMC markets should be modernized with certain governmental support.

- Uniform licensing system must be applicable in all the states and the government should eradicate unnecessary documentary requirement.

- Support the un-organized sector to form an association, so that, they could make an organized sector themselves.

- Support farmers also to form an association or co-operatives, so that, supply chain can be managed properly.

- Innovative banking solution support should be provided to farmers as well as retail organizations.

- Code of conduct should be drafted in terms of all the prices and quality terms, so that, healthy competition can be managed.

20.8 Summary

Although, current situation of Indian GDP is not showing healthy mark to foreign investors which can attract their investments and the economy time itself is also not perfect to receive the returns but government is putting the best efforts to revive the situation and facilitating the inflow of FDI in retail industry without affecting any other industry in any negative terms. The current Indian FDI policy is about developing joint ventures among multi brands to boost the current domestic retailing industry.

The current GDP situation of India shows that, foreign retailers are not showing much interest in investing until or unless 100% ownership is not offered to them, so that they can avoid the risk at maximum. Although, there is mixed response towards the FDI in retail industry but it has been already tested in China and Thailand that, at initial stage, the FDI rule in retail industry faced protest but later on the FDI in retail resulted into employment booming and rise in level of GDP.

The International Business times published in September 2012 has confirmed that, by the end of Year 2013, Wal-Mart will be in situation to start its operation in India and it will be the first foreign orgnaized retail house to enter in India which has the capacity of $ 500 billion of retail volume and the government has approved to invest INR 10 billion in India as foreign equity. Other than FDI allowance to Wal-Mart, Indian government approved 9 other organizations for FDI too.

20.9 Self Assessment Questions

1. What do you understand by Foreign Direct Investments?
2. What do you understand by Single brand FDI & Multi Brand FDI
3. What are the current FDI Policy and what are the key highlights of Indian FDI Policies
4. What are the concerns, Indian population is showing about FDI in India ? Do you agree with the concern and if yes or no, then why.
5. What is your own personal opinion about FDI in retail sector and how you are affected with this policy.
6. What are the benefits of FDI?
7. Explain the SWOT of FDI in Retail in India?
8. What are the challenges, any retail house have to face before entering into Indian retail industry?
9. What the recommendations from your side, so that, Indian population can accept the FDI?

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