Fundamentals of Retailing

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This book is dedicated to
the most revered Maharaj Jee & Sant Jee,
my grandparents, father late Shri Prem Singh Madaan,
and mother Smt Devika Rani

Preface

When I was contemplating writing a book on Retail Management, there were few early warning signs of economic hardships ahead. If inflation was the major concern in 2008 the world over, the apprehensions of deflation, which indicates sluggish demand, were looming large in the first quarter of 2009. When the situation is so fluid, it becomes a really challenging task to define and describe the events and developments as they unfold. So it is really important for the learners desiring to make retail as their career, to develop the understanding which helps them in the long run. Therefore this book focuses on the fundamentals of retailing which are relevant for the present situation and all times to come.

Perhaps crisis is the best time to learn the tricks of the trade—when people are ready to challenge established conventions. We can expect a *Nano* ised response from many Indian retailers to penetrate the vast retail market, by offering them more value through leaner retail formats. Otherwise, retail market-place is so big and diverse, it offers opportunities for every conceivable retail format.

Parallel to the growth of economy and consumerism, development of retail in India may witness the same phases as witnessed by developed countries. So, retailers in India can learn a few things from their global counterparts. But at the same time, with no legacy assets to carry forward, there is opportunity to leapfrog for retailers in India. Most of the Indian retailers such as Reliance Retail, Subhiksha, Aditya Birla Retail started from scratch.

International retail giants are mulling various options to enter the Indian retail bandwagon and replicate their international success stories here. For most of them, the *mantra* of success to operate in emerging markets is *Think Global, Compete Local*. Thus, all these developments are making retail environment interesting, dynamic and, most importantly, challenging.

Structure and Coverage of 'Fundamentals of Retailing'

This book is designed to give a thorough idea about retail practices in India and other parts of the world by integrating dynamics of retail environment with the theoretical framework. In *Fundamentals of Retailing*, operational aspects and practices and have been discussed within a strategic framework. In an

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increasingly globalised environment, studying retail as a subject from a strategic perspective can develop better understanding than a conventional approach.

Chapter 1 introduces retailing as a concept and as a function of distribution and value delivery process. The functions of a retailer give an idea about the value created by retailing for the final consumers. In India, where retail is predominantly traditional and modern retail is at introductory stage, readers should have a specific idea about features of modern retail. Topics such as customer value, value chain and service retailing have also been dealt with in this chapter.

Chapter 2 deals with the development of retail. An insight into the theories of retail development coupled with important historical milestones help in understanding the overall context of development of retail institutions. The impact of retailing on an economy is a reflection how retailing can become the growth engine of that economy. For students of retail in India, the overview of the current scenario and important sectors in the retail pie are helpful in the understanding of the overall context and it helps in further understanding of retail concepts in the Indian marketplace.

Chapter 3 and 4 are about classification of retailers. Chapter 3 deals with the categorisation of retailers on the basis of elements of strategy mix. Retail formats are the customer interface of retail organisations. The different formats of food and general merchandise retail formats like supermarkets, hypermarkets, supercenters, specialty retailers, value retailers, department stores—to name a few have been explored in a comprehensive manner with examples. Chapter 4 deals with the further classification of retail institutions which mainly discusses multichannel retailing. It has become a strategic option to access customers across geographies making retail business independent of time and distance constraints. As India is a heterogeneous market, deciding about an appropriate retail format has always been a crucial decision. This is the prime reason that many retailers here have entered the market with multiple formats.

Chapter 5 discusses consumer buying behaviour and retailer's strategies. The smart retailer always tries to offer value based solutions to consumer needs to stay ahead in the competition and customers keep coming back to the store. The market segmentation, target market and important strategic options available to a retailer have been discussed in detail.

Now localisation is a strategy pursued by most of the global retail giants, who are facing saturation in their home markets and considering options to enter emerging markets to expand. The chapter discusses how by formulating and implementing the retail strategy, the retailer is able to achieve retail objectives in the competitive environment.

Chapter 6 deals with procurement and optimum utilisation of financial resources. As retailers have to operate on thin margins due to increasing competition, the measurement of financial performance becomes important to ensure adequate financial returns and for purpose of cost control. An understanding of dipstick measures is helpful to benchmark retail operations so that objectives relating to human resources, inventory, space can be achieved.

Chapter 7 discusses location as a strategy for store based retailers. Decision about location entails heavy cost and have long term implications. The chapter explores the different options available to the retailer for locating their business. It also discusses the suitability of different retail formats to different locations. The various methods for estimating demand have been discussed.

Chapter 8 gives comprehensive treatment to various merchandising concepts such as process of merchandise procurement, assortment plans, open-to-buy plans. Various aspects of store brands are also part of this chapter.

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Chapter 9 covers the concept of category management in a comprehensive manner. Category management is being referred to as a way of doing retail business. This concept adopts a hands-on approach to meet brand competition and add more value for shoppers by making it more convenient. The process of category management alongwith role of category captain has been dealt in great length.

Chapter 10 shifts focus to another important issue for a retailer—which is pricing. Pricing decisions include strategic approaches concerned with positioning and achievement of retail objectives, as well as tactical adjustments according to market situations. Both have been discussed in sufficient detail.

Chapter 11 focuses on the people management. As the retailer is in direct contact with the customers and retail is becoming increasingly service oriented, it requires special skills. The training techniques to develop requisite skills, motivating employees and designing compensation packages to increase productivity, have been discussed in the chapter.

Chapter 12 is devoted exclusively to Store design, Layout and Visual Merchandising. Space has become more important during recent times because of proliferation of SKUs on one hand and high real estate costs and consequent rentals on the other hand. Store design and layout are directly linked to retail image and positioning of the retailer.

Dikhega to Bikega. The second part of the chapter deals with visual communication in retail store, that is, Visual Merchandising. It aims at impulse shopping. It enhances the shopping experience. The concepts like plannogramming, store atmospherics, window displays, visual communication, signages, fixtures, gondolas, aisles, rhythm, proportion, colour lines etc. have also been given their due place in this chapter.

In **Chapter 13**, attention is drawn towards promotional strategies available with the retailer and application of retail in marketing. The promotional mix is adopted by the retailer to acquire new customers and to promote impulse sales. It explores all the tools available for promoting the sales of store advertisements, in-store sales promotion techniques, personal selling techniques.

Chapter 14 is about key store operations in retailer organisation. The efficiency in store operations aims at better customer satisfaction and cost minimisation. Retail operations fall in two categories—back end and front end. Both have to work in unison to achieve retail objectives.

Chapter 15 discusses at length the supply chain management and logistics. The framework, key enablers and supply chain practices have been the mainstay of this chapter. At the end of chapter, the Indian scenario and steps to be taken to improve the supply chain management have been discussed. This chapter also deals with important aspects of logistics like order processing, warehousing, third party logistics, modes of transportation with respect to retail.

Chapter 16 draws the attention of readers towards retention strategies to make retail business a success by creating repeat customers. If the promotional mix is about acquisition of new customers, the CRM and loyalty programs and services intend to retain the acquired customers. For a traditional retailer, the CRM and loyalty programs were inbuilt in routine functioning and highly personalised, but in case of store chains and big formats, conscious efforts are required and retailers take help of technology also. There is always a scope for innovativeness in designing the loyalty programs.

Now that shopping is becoming increasingly experience-oriented and the retailer is perceived to be a customised solution provider, services have become key differentiator and enhance the perceived value of the product. So services are important. Quality parameters of the services are discussed in detail in this chapter.

Keeping in view the needs and expectations of the students, this book adopts a simplified approach while presenting ideas. The language of the book has been kept lucid and flow of idea spontaneous to the

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extent possible. To sustain the interests of the readers and for better assimilation of concepts, the chapter discussion is dotted with caselets and practical examples from industry. The learning objectives at the beginning and chapter summary at the end of each chapter help in benchmarking and assimilating essence of learning. The review exercises helps in evaluation of learning.

Case studies at the end of book offer opportunities to link learning with practical aspects in actual retail practices.

I hope this book will enable learners to comprehend retail concepts and situations in a beneficial manner, thus enabling them to become successful retail professionals. I wish readers all the best in their careers.

KVS MADAAN

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KVS MADAAN

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CHAPTER

1

Basic Concepts of Retailing



After studying this chapter, you should be able to

- ✓ explain the concept of retailing as a channel of distribution
- ✓ elucidate the functions of a retailer
- ✓ differentiate organised retail from unorganised retail
- ✓ understand the various issues faced by a retailer
- ✓ understand the concept of customer value, value chain in retail
- ✓ comprehend the nature of service retailers

Introduction

There have been paradigm shifts in shopping patterns and retailing practices across different geographies and customer segments across the country during last one decade. Shopping in modern retail stores has become extension of social self. Several studies suggest that there is a great deal of convergence of global teen values such as consumerism, materialism, independence, self-expression, openness to new ideas and cultures, flexibility, mobility and enjoyment of life. The consumer psyche, needs and expectations have transformed over last few decades in India—from *Hattis* and *haats* to *haute couture*, and from mela culture to mall culture.

Now shoppers look for brands which speak out their personalities, identities and attitudes and at the same time seek greater value in what they purchase. These transformations are natural for a society and economy, which is becoming increasingly globalised. Progress in the retail sector is logical extension of ongoing economic and market reforms programme in an emerging economy like India. Consumerism is fast becoming a way of life.

■●■ Retailing as a Concept

The word, 'retailing' is derived from French word 'retallier' meaning to 'cut a piece off' or 'break the bulk'. It is defined as a distribution function which includes activities in buying products from suppliers and selling goods or services or both to customers for their personal, family or household use.

Retailing is a science as well as an art. It as a science is related to decision making about merchandise, store operations, promotion etc. on the basis of available information. It helps in minimising uncertainty. It also means more use of technology in retailing operations. Retailing as an art is an activity aimed at offering innovative and personalised solutions to the problems of consumers and making a shopping experience complete to the extent possible.

Retailing as a business activity can be carried out from a store location as well as non-store locations. In non-store retailing, consumers can make purchases from their own locations as per their convenient timings. Electronic retailing, mail order catalogs and kiosks are popular formats for this type of retail. The business of retail can be carried out without a 'retailer' also. Here, examples of wholesale clubs and factory outlets can be cited. Wholesale clubs charge an annual membership fee from their customers.

From a different perspective, a consumer does not always buy from retailers. Like in an online auction system such as eBay, where one purchases from another consumer, the consumer purchase would not be classified as a retail purchase, as there is no retailer to offer the merchandise.

Retailing is evolving continuously. The retail value chain will become more integrated in future. Now retailers intend to have control over sources of supply. This is called backward integration. Apparel retailers such as Pantaloon and Koutons have set up their own manufacturing units or have entered into

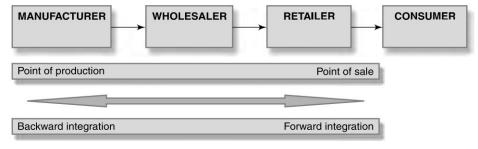


Exhibit 1.1

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exclusive contracts with their suppliers. On the other hand, manufacturers and vendors want to directly access consumers to build up their brands and increase their profitability. For example, Arvind Mills and Mudra Coats have started their own retail brands and chains.

■●■ Importance of Retailing as a Part of Distribution Function

Though retailing is closely related to all elements of marketing mix—product, price, place and promotion, as a distribution function, it specifically denotes place, distribution. The following table may give a better idea:

Four Ps of Marketing Mix	Four Cs in Retail Mix
Product	Customised Solution to Customer Needs
Price	Cost to Customer, Customer Value
Place	Convenience of obtaining the Product
Promotion	Communication Mix

Exhibit 1.2

The key objective of any retailer is to ensure availability of the right product, in the right quantity, at the right price, at the right place and at the right time. For a manufacturer cannot start just retailing to have greater control over distribution channels. It may not be financially viable. Thus cost, efficiency and control have to be taken into account in case of distribution decision.

As an integral part of the distribution system, retailing is a specialised activity, with a learning curve and it has to be efficient to become profitable. Even running a small kirana store successfully needs a considerable experience.

Furthermore, retailers tend to possess greater knowledge about changing customer needs and aspirations. Being close to customers, retailers have a critical influence over the choice of end customers. As retailing is a point of direct contact with customers, the formulation of retail strategy is required to compete in the marketplace.

That is the precise reason why out of three components of the distribution channel, manufacturer power and wholesale power are becoming more dependent upon retailer power. To put it simply, the ability of retailer to control the decision variables in the marketing strategy of manufacturer and wholesaler has increased over a period of time. This process got impetus with the growth of big stores and store chains especially if they enjoy significant market share.

Members of the distribution channels are specialists in what they do and can often perform tasks better and at lower cost than companies who do not have distribution experience.

■●■ How Retailing is Different from Wholesaling and Other Channels of Distribution

Retailers as an intermediary, the interface of retailer with the consumer is basically service-oriented with extensive use of personal selling techniques. Wholesaling is an intermediate stage in the distribution process during which goods and services are sold to business customers including retailers. The convenience of accessing retailer's location is also a type of important service while in wholesaling it may not be so. Retailers generally purchase goods from a variety of sources. Small general stores mostly

S. No.	Basis of Comparison	Retailing	Other Channels of Distribution
1.	Interaction with End Consumers	Direct Interaction	No regular Direct Interaction
2.	Sales Turnover	Low	High
3.	Number of Sales Transactions	High	Low
4.	Unit Price of Product	High	Low
5.	Variety of Merchandise	High	Low
6.	Profit Margins	High	Low
7.	Importance of Business Location and Site	Highly Important	Important

Exhibit 1.3

buy from local wholesalers. Big retailers often buy fast-selling goods directly from producers but still may buy slow-selling and specialist products from wholesalers and importers. Wholesalers make purchases from limited sources.

There are business firms that are retailers as well as wholesalers that sell to other business as well as to consumers. Examples are Office Depot, Home Depot, Sam Clubs. In India market, German giant Metro AG, Carrefour, South African Shoprite Holdings, SPAR International, Big Bazaar and Reliance Retail have already set up stores selling merchandise on a wholesale basis. Cash-and-carry stores attract large volumes from a sizeable number of retailers who do not have to maintain relationships with multiple suppliers for all their needs.

■●■ Functions Performed by Retailers

The distribution channels perform three kinds of main functions:

- 1. Transactional Buying, Selling and Risk taking
- 2. Logistical Assorting, Storing and Sorting
- **3. Facilitating** Financing, Grading and Marketing Information. Retailer, as an integral part of distribution, performs or facilitates performance of many of these functions. The specific functions performed by retailer are being discussed as under:
- (i) Breaking Bulk It is well known that the products have to be manufactured in bulk quantities to keep cost of production low and to reduce transportation cost. Products are generally consumed in smaller quantities. So, there is a need to break the bulk quantities into smaller quantities. This is generally done in phases by different components of distribution system including retailers. Retailer offers the merchandise in smaller and more manageable quantities to customers for household and personal consumption.
- (ii) Holding Stock and Risk-Taking Retailers keep adequate inventory of merchandise so that it can be made available to customers as per their demand. Thus, the customers can keep their own investment in inventory low. The retailers also assume business risk in the ownership of inventory that can become obsolete or deteriorate. This is especially true in case of perishable goods. The stocking process itself is not a simple activity as it includes demand measurement to procurement
- (iii) Creating Place and Time Utility Place utility is bridging physical distance that exists between the location where the product is manufactured and the location where the product is eventually consumed. Retailer as final contact point with consumer creates place utility. The retailer as an intermediary, facilitate routine of ordering and payment, leading to saving of time and efforts of the shoppers.

Time utility is about bridging inevitable difference in the point of time at which a product is manufactured and the point of time when the product is consumed. The manufacturing activity due to its concentrated nature is often at variance with the consumption activity, which because of its fragmented nature, happens in an erratic and irregular manner. To create time and place utility, products have to be stocked at appropriate places in adequate quantities so that the waiting period for end consumers can also be minimised.

(iv) Assortment of Product and Services Imagine the situation if the buyer has to visit different retailers to purchase milk, bread, jam, porridge for the breakfast of family members. Most of the times, the consumers demand an assortment of products or product and services, not just a single product. Wholesalers in general and manufacturers in particular, have comparatively homogeneous product offerings. Thus retailers, in order to make the shopping convenient, offer them heterogeneous mix of products by procuring from wholesalers or manufacturers. Moreover, by bundling different products, brands and/or services together, there is better perceived value and customer satisfaction. This is important from retailer's perspective also.

The Retailer's role in the Assortment Process can be shown with the help of the following diagram:

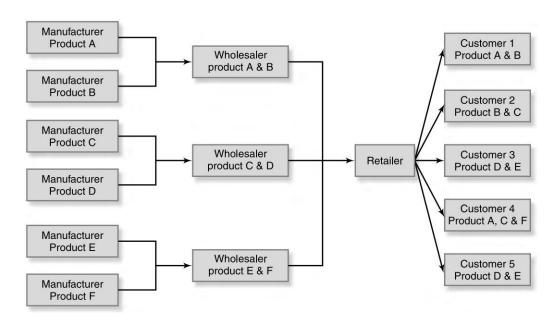


Exhibit 1.4

The complexity of assortment increases with the inclusion of more brands, styles, sizes etc. and number of stock keeping units can multiply. The retailer tries to simplify the buying process simply for the consumers.

(v) Extending Other Services Now customers see store as a community and shopping as an experience. So the retailers extend many other services like display and demonstration of the specialised products, providing information, matching needs of shoppers with product offering, gift wrapping, delivery, installation, after sales service, financing the products, parking facilities. The online retailers and catalog retailers offer flexibility in terms of time and location.

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The retailers, being in direct contact with customers can generate information, not possible by other intermediaries. Thus, they also help in research which can be used in new product development and designing.

(vi) Creating Demand and Sales of Merchandise Retailers are at the fore-front when it comes to creating demand for the marketer's product. Thus, they feed the whole value chain as part of cash inflows generated by retailers goes to wholesalers and other members of value chain.

In many cases, retailers perform an active selling role using persuasive techniques to encourage customers to purchase a marketer's product. Sometimes, they supplement the marketing efforts of manufacturer in their own advertising efforts and use other promotional means such as special product displays.

In the final analysis, we can say that producer can provide only form utility. The retailing, as an integral part of distribution function, complements the form utility by providing time, place and possession utilities. All these utilities have to co-exist and product offering is always incomplete with the absence of even one of these utilities.

■●■ Changing Face of Retail—Main Features of Modern Retail

The modern retail is also referred to as organised retail. The evolution of traditional retail into modern retail is important in a developing nation like India. Unorganised retailing refers to the traditional formats of low-cost retailing, generally fragmented, owner manned, small size of retail outlets, not driven by technology and generally lack in ambiance. It is mostly about mom and pop shops, neighbourhood stores, local kirana shop, general stores, shops, hand cart and pavement vendors etc.

Generally modern retailing is about modern retail formats and practices and higher relative performance of modern retail in terms of sales and profitability in comparison to traditional or overall retail. It must be noted here that even within the organised sector, the number of individually owned retail outlets far outnumber the corporate-backed institutions in India. Certain basic features of modern have been given as under:

- **1.** Adoption of Modern Management Practices The modern retail management is characterised by professionalism in decision making in all important aspects such as merchandising, store operations, supply chain, store designing and layout, promotional activities, use of technology etc. It becomes more important if the retail operations are multi-locational or international. In India, this got impetus due to entry of established corporate houses like Reliance, Tata, Birla, RPG into retail. In India, the number of pure retail-breed companies is still not very high. This is basically corporatisation of retail in India.
- **2. Growth of Multi-Store Retail Chains** The modern retail industry is characterised by consolidation and emergence of big players. The only way for these players to fulfill their sales and profitability objectives is to expand by opening stores across different markets and geographies and reap economies of scale and scope. Though there is no cut-off available to classify number of store chains as chain stores in India, normally it is taken as five in India. As per grading done by North America Institute for Classification of Industry (NAICS), a chain store is defined when the number of stores managed by common management is eleven or more than eleven.
- **3.** Large Format Retailing Nowadays, there is a proportionate decrease in number of small stores. The modern retail formats generally tend to achieve economies of scale and scope to compete and remain profitable, thus need to offer variety and assortment. For that they need huge space, where shopping experience can be made complete to the extent possible. The retailers tend to shift to out of

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town locations, away from cluttered market places, where space is available at economical prices and the scope of competitive differentiation is better.

4. Integrated & Dedicated Distribution Systems Information Technology is the key enabler in case of modern retail formats. With the emergence of big-sized retailers, there is better scope of backward linkages. Here, it also means that entering direct and exclusive contracts with producers-farmers and manufacturers especially speed and frequency of replenishments is important in certain categories of products, such as food and grocery. The growth of retail chains is accompanied by decline of wholesaling, also referred to as **disintermediation**. The integrated supply chain is taken as a strategic tool to compete by modern retailers.

Already, a number of manufacturers and suppliers in India, in line with trends in developed markets, have set up dedicated units to service the retail channel. The approach of modern retailers is to partner with other channel members for providing solutions to the end-consumer more effectively.



Exhibit 1.5 Simple Representation of Modern Retail Store Chains

Frozen Food Export major Himalaya International Ltd (HIL) has plan to invest Rs 50 crore in organic farming. It will take up organic farming in Gujarat, Rajasthan and HP. It has entered into tie-up with Reliance Fresh, Bharti-WalMart, Spencer and 'more'. HIL is setting up Special Economic Zone in Gujarat. It has plans to set up food park in Northern part of state and go in for production of mushroom, frozen appetizer, baby potato and specialty cheese.

Reference: The Economic Times, dated August 29, 2008.

Exhibit 1.6

Above example shows that how retailers can tie up with suppliers for dedicated supplies.

5. Growth of Private Labels With shopping becoming an experience, the store is not merely a place to shop in, but itself is a brand to experience. This is further supplemented by development and promotion of private labels by retailers. Developing private labels accelerate more integrated supply chain. The purpose of private labels is to create differentiation, reduce price competition, build customer loyalty, higher margins and greater consumer value.

In the context of Indian retail market, we can cite an example of Future Group which has developed so many brands under its fold like Food Bazaar, Central Big Bazaar, Fashion Station, M-Zone, Converge to name a few for different retail formats. Now some of the Future Group's product brands are available at other stores also. Reliance has plans to brand its own Cola which can give tough competition to Pepsi and Coke. In food and grocery category, 'more', Spencer's, Food Bazaar, Subhiksha and Reliance Retail have been at forefront to develop private labels. In case of Aldi, Asda, Sainsbury, Tesco, more than half of the sales can be attributed to private labels.

6. Customer Relationship Management and Loyalty Programmes In addition, the retailers also rely on Customer Relationship Management through better services and launch customer loyalty programmes to attract and retain customers.

Here, it is important to mention that in the USA, mechanism exists in the form of North America Institute for Classification of Industry (NAICS) to classify the businesses including retailers, with the help of coding system. But in India, retail is yet to acquire the status of industry, as of now. Somehow,

overall the unorganised trade is getting organised in India. In addition to above, the differences between the organised and unorganised retail are given as under:

Comparison of Key Characteristics of Orgainsed and Unorganised Retailers in India

Basis of Comparison	Organised Retailers	Unorganised Retailers
Average Size (sq ft)	4,000	3,00
Average Number of SKUs	5,000	1,200
Service Format	Self Service (Do It Yourself)	Over the Counter
Customer Expectations	Predominantly Experience based	Predominantly Need-based
(ambience etc)		
Stock Turn	High	Low
Profit Margins	High	Low

Reference: Images Retail, September 2008 Issue

Exhibit 1.7

■●■ Concept of Value Chain in Retail

The performance of retailer depends upon the value it can offer to the customers. The customer value is the comparison of perceived benefits with its cost. To put simply value is also defined as quality of benefits and services accompanying a purchase decision. More the benefits, more is the value of product.

- Perceived benefits at store can be functional as well as psychological. These include product features, level of services, store environment, location, parking facility etc.
- The cost includes price of product, shopping time and efforts, risk of wrong purchase. Price of the product may be same for two customers but the value may differ for them.
- The retailer may also share the benefits in terms of higher customer satisfaction and consequent higher sales and margins.
- Retailers as any other business have to identify activities which can add more value to the final product offering and try to eliminate activities which do not add customer value.

Suppose extra embroidery work done on a plain shirt by an apparel retailer costs Rs 20, but the perceived value enhancement by customer is Rs 50. In this situation, even if the retailer charges Rs 30 extra, both parties would gain.

Every business has got its own value chain. The sequencing of processes or activities to deliver customer value in retail business can be termed as Retail Value Chain. The customer is concerned with the end results only. The motive of the retailer is to focus on activities which maximise the value to customer. The value can be increased by bringing more integration among the different processes or sub-processes. A typical retail value chain can be described as under:

Farm To Fork

Concept of Reliance is also based on integrated supply chain. Same is the case with ITC *e-Choupal* and Godrej *Adhaar*.

In case of lifestyle products, the customers may be ready to pay premium pricing for product and services but in many cases, a customer may not want any extra service and just need the basic product at a lower price. Thus, the retailer has to be conscious about these aspects of consumer behaviour while

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Exhibit 1.8

McDonald's has standardised production operations and sourcing of inputs so that customer gets same taste of McAloo and McBurger and level of services where it is located in India. McDonald's has developed integrated supply chain by working closely with farmers and suppliers. It helps them in pre-harvesting, harvesting, refrigeration, warehousing, logistics activities. Thus the company is able to procure desired quality vegetables from farmers and suppliers and is able to offer good quality food to end consumers at competitive prices, but still able to make reasonable profit. This helps in desired positioning of the company.

Exhibit 1.9

offering customer services. That is precisely the reason that retailers develop different price points to appeal to the different market segments.

In apparel industry, the success of Zara and Marks and Spencer is also due to its highly integrated production and marketing processes. Wal-Mart, Carrefour, Tesco are successful due to integrated value chains. Now due to globalisation and technology as the key enabler, value chain may cover many countries across the globe with China, India, Korea as vital links as most of the manufacturing and services shifting to these countries.

Shopping Experience

Related to the concept of customer value is the concept of shopping experience. Customer may be satisfied with one aspect but dissatisfied with another. But shopping experience is more of overall satisfaction.

Retailers have to make continuous innovations to enrich the shopping experience. As discussed in the earlier part of the chapter, organised retailing is experiential in nature. And the modern retailers may try to differentiate themselves on the basis of better shopping experience from the conventional retailers.

Amongst modern retailers, some can try to use the better shopping experience as a Unique Selling Proposition (USP) to differentiate themselves from others. Though largely the shopping experience is linked to in-store activities and primarily the responsibility of frontline staff, it needs the support of robust back-end operations.

The shopping experience has the following dimensions:

- 1. In-store Customer Service
- 2. Merchandise Pricing
- 3. Promotional Activities
- 4. Visual Merchandising, Displays

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 - 5. Availability of merchandise perfectly or nearly matching the needs of the customers
 - 6. Adoption of best business practices

Apart from these, there can be many other factors affecting customer service.

■●■ Retailing of Services

A service is an intangible product involving a deed or performance or an effort that cannot be physically possessed. The consumption of services also fulfill certain needs of the consumers, as is the case of physical goods. The most common examples of retail services are retail banking, insurance, educational services, health services, legal consultancy, packaged tours and travels, immigration consultancy, internet cafes, telecom and broadband services to name a few. The consumption of services increases with increasing prosperity.

The few Sectors in Service Retailing are given as under:

Personal care

- Dry cleaning and laundry
- Beauty salons
- Health centres and spas

Entertainment

- Movie theatres
- Bowling alleys
- Discotheques/nightclubs
- Golf courses

Repair

- Automobile repair centres
- Consumer electronics items and appliances repair

We can take example of PVR, Inox and Adlabs for entertainment services, Cox and Kings, Sita Travels, make mytrip.com for tours and travels. bharatmatrimony.com, vivah.com, shadi.com are various web portals providing matrimonial services.

Take another example: Transportation is the service provided by airlines, railways and roadways but all vary in terms of convenience, pricing and user experience. Even within these major transportation services, many options are available. Like in airlines, the business and economy options are available. The evaluation of services is dependent upon individual experience.

The merchandise retailers also provide many services like parking, help in making purchase decisions, checkout services etc to name a few. But these services are built around physical product offering. The retailers offering same merchandise tend to differentiate on the basis of services. So every retailer has certain attributes of service retailer. So this kind of attitude helps in adding value and enhancing shopping experience.

The services are made available to customers with tangible products but degree of human involvement depends upon many factors including technological advancement in a particular service area. Some services like healthcare, education, legal consultancy are more personalised in comparison to others.

USA is the largest service economy of world. More than three-fourth of workforce in private sector is employed in service industry. Sixty percent of services are consumed by the final consumer.

The service sector has also led the economic growth story of India. India is being termed as service factory of the world as many services are being outsourced to the country. The demand of services has

increased due to the urbanisation of nuclear and double income families and changing lifestyles. Thus, service retailers have great opportunities waiting for them.

Specific features of service retailing which also differentiate it from merchandise retailing are being discussed as under:

Intangibility The services can't be touched and seen like merchandise. Normally, the performance attributes of service can be evaluated only after the purchase, while the performance qualities of merchandise may be ascertained before purchase.

- The retailers need to develop tangible portrayal of the services in their advertisement messages. For example, airlines use an aircraft and hoteliers use ambient rooms in their advertisement messages so that consumers can visualise the quality of services.
- Branding of services helps in developing loyal consumers. Branding coupled with personal experience results in word of mouth advertisement which is crucial for success of service retailers.
- In the absence of physical attributes, prospective consumers tend to do pre-purchase evaluation of services on the basis of pricing. More the pricing is, better is the expected quality of services.
- Now as the demand of services and competition is increasing, the service retailers want to produce services with greater efficiency to keep cost low. Many services may be bundle together to increase element of tangibility and appeal to customers. This is also known as 'commoditisation of services'.
- Like the tour and travel operators may be offering tour packages and health clinics may be offering health packages. So that service providers generate more revenue by keeping the unit cost low and offering customers, the more value.

Perishability Services are produced and consumed simultaneously, so no inventory can be maintained for later use. For example, in case a hotel room is not occupied for a day, it is a direct loss of revenue to the owner and may not be able to recover lost revenue. But in case a merchandise retailer is not able to sell goods for a day or so, it can be carried forward, provided it is not perishable.

- Services are consumed in a more direct manner as compared to merchandise retailer.
- Service retailers need to avoid any situation where there is any unsatisfied demand.
- Retailers need to design and offer services to market segments with different demand patterns, new services to complement existing services to build up volume and profits.
- Service retail personnel should be able to handle multiple tasks so that there is optimum utilisation of human resources.
- There is also need to motivate consumers to use service at non-peak hours by offering incentives.

Inconsistency Human resources are the important input in production and delivery of services to consumers. So, quality of services is dependent upon their level of motivation, attitude, knowledge, training and development etc.

- The quality of services produced and delivered can vary from one person to another. Even in case
 of an employee, it can vary from one point of time to another. So, service retailers tend to standardise
 production and delivery processes so that consumers get consistent quality every time they approach
 the retailer.
- Human involvement may be minimised but may not be completely eliminated in case of retailing of services.

Inseparability The services have to be delivered directly. In many cases, it is possible to use intermediaries, franchisees, travel agents, ATMs etc.

• Interpersonal skills and Customer Relationship Management are important to earn loyalty of customers. Customers may become loyal to a particular employee as opposed to the company, prevalent in the advertising industry.

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Flush with cash, after selling their stake in Ranbaxy, the Singh brothers are now focusing on accelerating the pace of growth of Religare Enterprises—the group's integrated financial services company. Two years ago, in 2006, in a rebranding exercise, the Ranbaxy promoters-owned Fortis rechristened its financial services business as Religare Enterprises (REL). The Fortis brand name would be exclusively used for the group's healthcare business only.

Religare, will set up a chain of multi-product, multi-brand, one-stop financial services retail stores called "Finmart." These stores will offer financial services mainly in the area of investments, insurance and loans to individual customers to individual customers. Religare may set up around 200 'Finmart' retail store across the country at an investment of Rs. 100 crore in the next one year. Each store will occupy an area of 300-400 sq ft.

A significant amount of funds has been set aside for promotion of the brand. Anil Ambani-led Reliance Capital is already offering similar services across the country under the brand name of "Reliance Money."

Singh family is also engaged in setting up another retail chain in the area of healthcare. The retail chain of pharmacies has already begun setting up retail stores under the brand name of "Fortis Healthworld" across the country.

Reference: www.economictimes.indiatimes.com, accessed on 25.06.2008

Exhibit 1.10

Service retailers should make it sure that many employees are capable of performing the same tasks; so consumers do not drift away, if a particular employee is not available. For example, a bank cannot turn a customer away, who has come for availing a particular service, say a demand draft issued, on the pretext that a particular employee has not come. This service has to be performed by some other employee.

To sum up, we can say that building trust and brand in services is much more challenging than in merchandise retailing. It needs continuous efforts on part of the service retailer.

■●■ Some Important Issues before a Retailer

Retailing as a business option has become very competitive and challenging during recent times. Retailers, as entrepreneurs, are faced with many issues as they have to compete in marketplace. In addition to utilitarian value of the merchandise, the customers seek satisfaction at an emotional level also. Thus, besides merchandise, store environment has also to be geared up to fulfill this function.

The major objective of every retailer is to create competitive differentiation and thus survival and growth of business. The key concerns of retailers are:

- 1. Maximising Customer Value Market is changing itself from being price-oriented to value-oriented. Retailers must develop their business model around customer value. It will help in building relationships that result in repeat purchases and world of mouth advertisement. It is also related to survival and growth of the retailing business.
- **2.** *Merchandising* Now purchasing is becoming more 'impulsive' than 'need based', which are difficult to predict and describe. Thus the ability to understand the trends and procure the right products accordingly is very important for a retailer.

Visual merchandising is another important dimension of merchandising. It is important to highlight the merchandise features in store to improve its sales potential. These days the concept of micromerchandising has gained currency to meet the demands of customers at a micro-level.

Now, retailer has to trade off between standardisation of merchandise (to scale up the operations) and localisation of merchandise (to meet consumer demands at the individual level). The former tends to decrease the per unit cost and latter may increase the per unit cost of merchandise.

3. *Traffic Building* Success of any retailer is dependent upon traffic building. It means number of 'footfalls' in case of physical retail store or 'number of visitors' in case of virtual retail store. Building 'traffic' is accomplished with a variety of promotional techniques.

- **4. Store Design and Layout** An ambient store design and layout with right merchandising is important to make retail experience a complete one. It is important to guide the flow of traffic. Layout is also important in the virtual retail world where ease of navigation and usability can make a difference between success and failure.
- **5. Store Location and Site** Physical location of a retail store is important in building up customer traffic. Thus, a well-located store with high visibility and connectivity is the natural choice for any retailer. Decision about location is generally trade-off between cost (rental or real estate) and benefits of location.
- **6. Keeping Pace with Technology** Technology has invaded all areas of retailing including forecasting, inventory management, Customer Relationship Management, store layout etc. This is important to improve productivity of retail operations and provide more value to customers. Technology is estimated to become the third highest cost component for modern retailers after real estate and human resource costs. Access to technology alone is not sufficient, but ability to put it to optimum use is perhaps more important.
- **7. People Management** Retailing as a service oriented industry is highly dependent on human skills. Now, retailers have to compete with sectors of economy like IT & ITES, Banking, Financial Services and Insurance (BFSI) to get desired pie of available human talent. First hiring and training them to develop right set of skills and motivating and retaining them are the most formidable challenges in the retail industry. As retail environment is becoming more complex, higher should be the level of human skills to compete.

[Summary]

- ➤ Retailing is an important distribution function as it offers goods and services directly to final customer. It is a science as decision making is based on information and is quite structured. It is an art as there is lot of scope for applying creative skills by retailer to deal with the changing environment. Retailing can be carried out from store as well as non-store location. It can be done even without a retailer. In future, it is likely to become more integrated.
- ➤ Retailing specifically denotes place of four Ps of marketing. It is a specialised activity and needs a lot of expertise. It has become more powerful in comparison to manufacturer and wholesaler power, being nearer to the customers.
- ➤ The major functions performed by retailer are breaking bulk, holding stock, creating time and place utility, providing assortment, creating new demand for merchandise.
- Modern or organised retail is characterised by modern management practices, growth of multistore retail chains, large formats, integrated distribution and growth of private labels.
- Creating value in retailing functions means adding more benefits at the same cost or same benefits at lower cost. Value Chain in retailing has to be more integrated to offer more benefits to customers.
- ➤ Retailing of services is becoming more important as the contribution of services in economy is increasing. The features which differentiate service retailing from merchandise retailing are **intangibility** as they do not have any physical existence, **perishability** as they are produced and consumed simultaneously, **inconsistency** in quality and **inseparability** from the person who is performing service.
- Maximising customer value, merchandising, traffic building, store design, location, technology and people management are the important issues before any retailer.

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-{Revision Exercises]

■ ■ Very Short Answer Questions

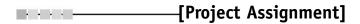
- 1. What is the concept of retailing?
- 2. How retailing is different from wholesaling?
- 3. What are the four Cs of retail mix?
- 4. How the concept of 'breaking bulk' is applied in case of wholesalers and retailers?
- 5. What is assortment of merchandise in case of retailers?
- 6. Differentiate between organised retail and unorganised retail.
- 7. How retailing can be termed as a specialised activity?
- 8. What is non-store retailing?
- 9. What is retail value chain?
- 10. What kinds of services are generally extended by retailers?

Short Answer Questions

- 11. Identify the main features of retailing as a business activity.
- 12. How retailing can be differentiated from the other channels of distribution?
- 13. How concept of value is important to retailers and customers?
- 14. How changes in consumer profile have an impact on retailing?
- 15. How integration in Retail Value Chain can benefit consumers?
- 16. How retailing of services is important?
- 17. Discuss importance of retailing as a distribution function.

Long Answer Questions

- 18. Discuss the main functions of retailing.
- 19. What are the main features which differentiate service retailing from merchandise retailing?
- 20. Discuss the main features of modern retail.
- 21. Discuss the main issues before a retailer.



Collect information about two retail organisations which as per your opinion fulfill the criteria of modern or organised retail. Make a report on them.

CHAPTER

2

Retail Development and Indian Scenario



After studying this chapter you should be able to understand

- ✓ main theories of retail development
- ✓ development of retail in India and USA
- ✓ key features, growth factors, issues and challenges before retail industry in India
- ✓ role of retail business in the economy of a nation
- ✓ rural retailing and its comparison to urban counterparts
- ✓ features of Indian retailing in comparison to other parts of the world

■●■ Introduction

Retailing in India has gradually come of age and gained critical mass to become next boom story after IT. The whole concept of shopping has undergone a change in terms of format and consumer buying behaviour. Modern retail has entered India in a significant manner as one can see in extensive, multistorey malls and shopping centres. Development of retail in India is in parallel to economic developments in the country. Seller's market is fast becoming a buyer's market, and unorganised retailing is becoming increasingly organised.

Growth of consumption and organised retailing is entering next higher trajectory. It is important to understand different stages of development of retailing in India and other parts of world to get better idea about overall context. It will help in better understanding of current scenario.

■●■ Theories of Retail Development

Retailing has undergone changes over a period of time. Basically, there are two sets of theories to explain the dynamics of retail trade.

Cyclical Theories

- 1. Wheel of Retailing
- 2. Retail Accordion

Development Theories

- 1. Dialectic Process
- 2. Theory of Natural Evolution

As per cyclical theories, the process of retailing is repetitive in nature, but as per developmental theories, the retail is evolving continuously.

Wheel of Retailing Theory This theory was originally given by McNair and modified by Hollander. It is based on the assumption that price-sensitive consumers are not store-loyal and new retailers are in a better position to implement lower operating costs in comparison to existing ones.

Entry Phase It describes how new types of retailers enter the market as low-status, low-rent location, low-margin, low-price operators with no-frills products.

Trade-up Phase As retailers meet with success, they improve locations, add more services, create ambience in their product offerings.

Vulnerability Phase This phase is marked by high cost structure and less adaptability. Existing retailers become vulnerable to new types of low-cost, low-margin retail competitors who progress through the same pattern.

This theory takes into account changes occurring in the environment. If management moves away from market realities, it leads to inability to respond to threats to the business. Initially, McDonald's offered selected menu and limited services. But over the period, its product horizon expanded to include sports facilities as well. It made way for many new, low-cost fast-food retailers to start ventures to fill the gap created by upward movement of McDonald's.

Similarly, when traditional departmental stores became inaccessible due to high prices for a large chunk of population seeking more value, full-line discount stores (such as Wal-Mart) emerged as a 18

result. Likewise, Big Bazaar in India emerged as a discount store in response to similar environment to cater to the needs of price-sensitive Indian consumers.

Retail Accordion Theory According to this theory merchandise mix expands and contracts like an accordion during different time periods.

- Development of retail is linked to human habitation. When a new locality develops for settlement of human population, early retailers there deal in nearly all products to satisfy daily basic needs.
- As the locality develops, few retailers tend to offer specialised merchandise, like footwear, hardware, apparels, consumer durables, lifestyle products etc and services like restaurants, beauty salons among others.
- With passage of time, the specialised retailers may add unrelated products to their existing
 merchandise in order to increase revenues. Thus, gradually some specialised retailers again become
 general merchants.

This theory is also termed as **General-Specific-General** theory.

In a different context, Crossword, a lifestyle bookstore chain and a part of Shoppers' Stop Ltd which started its operations in 1998 gradually added non-book categories such as pens, stationery, toys and music mainly to increase profit margins and traffic flow. These categories currently account for 40-42% of all sales at Crossword (2008).

Dialectic Process Theory As per dialectic process, retail institutions evolve into newer forms over a period of time. It further suggests that new retail formats emerge by adopting characteristics from other forms of retailers. It happens in the same manner as a child is a product of pooled genes of two different parents and may not exactly match with either of the parents. New retail formats maintain continuity with the existing retail formats.

It offers simple and logical framework for the understanding of developments of recent retail formats. It can be explained in a different way also. The new retail institute evolves in the same way as synthesis is the outcome of combining thesis (some concept or idea) and anti-thesis (opposite concept or idea). The following example will give students a better idea about this theory.

	Thesis +	Antithesis	Synthesis
Parameters	Department Store	Discount Store	Deep Discount Store
Profit Margin	High	Low	Average
Sales Turnover	Low	High	Average
Price	High	Low	Moderate
Level of Service	Full Service	Self-Service	Limited Service

Exhibit 2.1

Take another example, convergence of 'Traditional' (store-based) and 'direct marketing' (home-based) resulted in the emergence of new retailing format 'electronic direct marketing.'

Theory of Natural Selection Dreesman was the first to apply Darwin Theory of Natural Selection to the evolution of retail organisations from the general stores to the variety of retail outlets seen today. It suggests that a process of natural selection operates in retail trade also. Adaption to changes in environment is the necessary condition for the survival of retail formats. Some of the developments during last few years are given as under:

• Specialty retail format for certain product categories such as infant-wear and toy-stores declined as discount stores and category killers gained more market share.

- Traditional food retailers in India are challenged by fast food joints as lifestyle is changing.
- Traditional booksellers have been challenged by category killers such as Barnes & Nobles and electronic book sellers such as amazon.com in USA.

In India, the organised retailing in books category is growing at a growth rate of more than 30% and traditional retailers may feel threatened. In fact, many store-based retailers are actually going for multiple channels to minimise the threat posed by internet-based retailers.

In general, we can say that retailers offering optimum value have best chances of survival in the retail environment.

With demographic changes like shifting of population from central parts of the cities to suburban areas resulted in development of new shopping centres to meet the needs of new residents, home improvement and home furnishing stores are performing well with boom in housing construction in India.

Change is a pervasive factor in retail business. In order to develop successful strategies, it is necessary for retailers to understand the reasons behind the changes. Some changes are changing lifestyles, shopping patterns, shorter product life cycles, etc.

The retail environment is so complex that many theories may be applied simultaneously in the same example. For instance, Wal-Mart is a very big organisation and has a long history behind it and so, more than one theory may be applicable. Foolproof segregation of theories may need further study.

■●■ Development of Retailing in USA

History of retailing and other types of trade and commerce may well run over few thousand years. Retailing is still evolving and it is difficult to say with precision that which format developed where and when. Though USA is comparatively a younger nation in terms of history of trade and development, but a study of retail formats in USA, the largest and one of the most diverse retail market in the world, give us a fair idea to understand the evolution of modern retailing. The different milestones can help us to identify the pattern of development of modern retail.

- Hudson Bay Company began operations in 1670. Initially, natives of North America brought fur to
 its trading posts for bartering with many manufactured goods. Later on, the company converted its
 many trading posts into sale-shops towards the end of 19th century by adding variety of products
 and also venturing into 'department stores.' Peddlers were also important during initial stages of
 development of retail.
- Sometimes General Store is termed as the first modern retail institution in the USA.
- Supermarkets made appearance in the early 1930s. Great depression spurred the need of self-service stores both for retailers and customers. On one hand, retailers were looking forward for measures to bring the cost down so as to survive and on the other, customers were ready to take botheration of self-servicing (DIY—Do It Yourself) to purchase products at a reduced price.
- Before World War II, retailers were primarily concentrated around 'high street' or down-town areas of the big cities. After World War II, a key trend was migration of population towards suburban areas. It led to emergence of shopping centres offering a range of merchandise and services.
- The 1950's saw the emergence of shopping malls, providing an end to end shopping and entertainment experience.
- Discount stores also arrived in the 1950s. Discount stores are large stores with more than 1900,000 sq ft of space, situated at a distance from the city centre or suburb. They gained significant market share in a very short span of time. Wal-Mart was set up in 1962.

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 - The 1980s observed the era of first off-price retailers.
 - With World Wide Web (WWW) born in 1991, nineties have been the most happening decade in the history of retail. Internet has changed the whole way of doing business. Traditionally, the customers are supposed to go to stores to avail the product. Now, the retailers are approaching the customers. It has impact on the way retailing can be done.
 - During the same period, with category killers contributing around one-third of overall US retail sales, many malls, specialty stores and other retailers realising that they couldn't compete on price, decided to focus on the quality of the 'shopping experience.'

Now 'Retailtainment', combination of retail and entertainment, is becoming popular.

• In early 2000's, many dotcom busted because of basic flaws in the model and only a few companies like amazon.com were able to survive. The focus again shifted to physical stores and many retailers invested money in e-retailing to supplement marketing efforts at physical stores. But after a lull, the e-retailing is seeing some action again and has great prospects.

Here, it is important to add that many Western European nations also observed more or less same pattern of development.

■●■ Development of Retailing in India

As mentioned above, India is one of the oldest civilisations in the history of mankind. The ensuing discussion gives us some general idea about different phases of development of retail in India. But, it is important to mention here that India is a very diverse market and different forms of retail mentioned below co-exist across different parts of India.

Traditional Retailing

Historically, all types of trading including retailing was being done through barter system in India as is the case with parts of the world. At one point of time in history, almost one-third of the world trade was routed through India and it witnessed growth of many cities on main trading routes.

- Villages in India were self-sufficient in fulfilling the most of basic necessities through barter system
 of trading also referred to as mini republics.
- Peddlers mentioned in earlier discussion of evolution of retailing in USA are identified as
 pheriwallahs in context of India. They used to move from one village or town location to another
 selling clothes, handicraft, spices and other items. Gradually, these traders settled across various
 towns and cities. Trading community in India has its origin in these settlers.
- With further expansion of trade, commerce and urbanisation, cities became centers of consumption of goods and services and retailing flourished. The retailers used to visit city markets to replenish their stocks.

Presently, Kirana Stores, Haats and Melas are expression of Traditional retail in India.

Kirana Stores These have been the hallmark of Indian retailing till date. These are food and grocery stores which also stock few general merchandise items.

- These naturally fit into Indian social setting—dense population having low purchasing power but high purchase frequency.
- Traditional retailing is highly fragmented.
- There are 12 million Kirana Stores or Mom and Pop shops in India.

It has been discussed in detail in next chapter under convenience stores.

Apart from Kirana Stores, there have been specialty retailers even in the traditional retail set up such as cloth merchants, jewellery shops, footwear, shops, sweet marts, etc.

Haats These are predominant in rural or small towns. These are periodic markets, generally weekly. These attract buyers from nearby villages also. Visit to these markets with family or friends is itself a source of entertainment.

- Now, traditional haats are evolving into the more fashionable urban haats. Examples are Delhi Haat in New Delhi and Swabhumi in Kolkata.
- It give artisans an opportunity to directly market their hand-made products such as jewellery, handicrafts, lampshades, pottery, ceramics, etc. It is in contrast to the modern retail in India dominated by mass-produced goods. Thus various artists also find their way into urban market.

The 'culture of Haats' is spreading across the country as it is a glimpse of traditional way of life and is fast becoming a big attraction, especially for foreign tourists.

Melas Various melas (fairs) across the country are part of its socio-cultural heritage. Manufacturers and suppliers of various products such as handicrafts, agriculture implements come and sell their products directly to visitors. Melas are seasonal or tied with important festivals. Examples are Kumbh Melas, Pushkar Mela.

In addition to above, there are many traditional shops across cities, run by family members whose history goes beyond many decades or even few hundred years such as Chaina Ram, Ghantewala Halwai in Old Delhi, Kadar Bax on Hawa Mahal Road, Jaipur manufacturing and selling quilts, etc. There are so many retailers with impeccable record of quality in traditional market areas of cities like Lucknow, Jaipur, Hyderabad to name a few.

Government Supported Retail

After independence, Government of India adopted the concept of modern welfare state. It itself entered into the retail arena in a big way to provide essential commodities like food grains, sugar, kerosene oil to end consumers at reasonable or even subsidized prices at ration shops or fair price shops and to keep a check on inflation.

- Food Corporation of India has an extensive network of about 4,78,000 fair price shops under its Public Distribution System (PDS)
- Kendriya Bhandars (about 120) and Canteen Store Depots (around 3400) are run by different government departments.
- Government set up Khadi and Village Industries Commission (KVIC) in 1956 to promote and market products of village artisans, thus, generating employment. It is operating 7,050 outlets, with annual sales turnover of over Rs 15,000 crores (2007) and introduced franchise system. They also organise national and international exhibitions.
- National Textile Corporation (NTC), which was set up as a central public sector enterprise under the Ministry of Textiles in 1968 to manage sick textile units. It has 100 plus showrooms to provide market for the product manufactured by these textile mills. Indian Textile Plaza is under construction at one of closed mills of NTC in Ahmedabad with facilities like handloom and handicrafts mall, Exhibition Hall, Convention Hall, Theater Complex, Textile/Handicraft Museum, Food Court, Children Plaza, Youth and Women Training Center and City Plaza by NTC.
- Government also supported Amul's cooperative movement to provide dairy products mainly to
 urban consumers at reasonable prices on one hand and offer attractive prices for their produce to
 the farmers on the other. Business model of Amul, which became popular as "Anand Pattern", has

been adopted by many states. Mother Dairy, a subsidiary of National Development Dairy Board (NDDB) is also functioning on the same pattern.

Here, it is important to mention that Government supported retail incorporated many features of organised retail. For example, systematic supply chain mechanism in PDS, KVIC.

Modern Retailing

The features of modern retailing have been discussed in the first chapter. Before entry of modern retail store chains in India, an early form of 'supermarket' had been existing in India for last many decades in the form of Super-Kirana. It is the single-unit, family run, ambient, more efficient than traditional kirana store. These are still popular, especially in small towns.

Economic reforms in 1990 provided the right kind of environment for the development of modern retail in India. It is only in the past decade or so that a western-style supermarket, although on a smaller scale, appeared in India, mainly in southern cities plus New Delhi and Mumbai. By and large, development of modern retailing in India started with textile sector. Raymond's, Bombay Dyeing, S. Kumar are few of the earliest brand manufacturers in textile sector with integrated supply chains for their stores across the country.

Convenience store has been the most visible face of retailing in India. Apart from convenience stores, there had been many retail ventures in India, mainly led by private sector, which over a period of time have become modern face of Indian Retailing.

- Nilgiri Dairy Farm running dairies, bakery, cake shops was established in 1905. Its supermarket chain opened its first supermarket in Bangalore in 1971 and by 2005 it had built a network of 30 stores in many southern states.
- Nalli Sarees started its operations in 1928. Raymond's started its first retail store in 1958. There have been many retail ventures in the form of Akbarally, Charagdin since decades.
- Vareli, Garden and Vimal also started operations in late 1970's or early 1980's.
- Hyderabad-based Trinethra Group opened its first supermarket in 1986. After selling off its stake to Aditya Birla Group, it started new retail venture 'Vah Magna' in 2006 in multiple formats ranging from convenience stores, supermarkets to hypermarkets and Cash and Carry.
- Nanz, a joint venture between Goetz (Escort Group), Nanz (Germany) and Marsh (USA) is the first supermarket chain which started operations in Delhi in 1993. However, despite showing good growth during initial stages, it could not be successful.
- Pantaloon (Future Group) also started operations in 1987 in fashion apparels. Big Bazaar started in 2001 and Food Bazaar in 2002.
- Khadim, a footwear retailer, started its operations in 1993. It has significant presence in Eastern parts of the country.
- One of the pioneer supermarket chains was created in mid-nineties through a technical agreement between India's Kolkata-based RPG Group and the Hong Kong-based Dairy Farm International, which got Government approval in 1999. Planet M and Music World in music, Crossword and Fountainhead in books also made entry into modern retailing.
- Other significant chains include the Subhiksha, Reliance Retail, Tata Trent, Aditya Birla which started operations within last one decade or so.

Here, it is important to add that in modern context, many of the functions performed by haats and melas have been taken over by exhibitions or trade shows, which may be organized by event management companies (such as Exhibition Movers in Chandigarh) or government departments. Trade fair held in November month in New Delhi every year also draws big rush and a platform for manufacturers, traders to promote and sell their products. One such event organised by Chandigarh Administration is "Chandikrit" to promote sales of products of local industries.

Inside Outside Mega Show (by Business India Exhibition) is primarily meant for professionals (such as architects, interior designers) and businesses dealing in home furnishing and improvement, but these kinds of shows make prospective buyers aware about the latest trends and options. They also tell about availability of the products with the dealer-retailers.

The retail organisations discussed earlier are just illustrative to make students understand the development of modern retail and is not at all the complete list. Various modern retail formats such as supermarkets, hypermarkets, specialty stores, e-retailing, kiosks have been discussed in next two chapters in a formal manner.

■●■ Current Retail Scenario in India: Key Features

India has topped AT Kearney's annual **Global Retail Development Index (GRDI)** among 30 emerging markets for three consecutive years—2005, 2006 and 2007—on the basis of overall market attractiveness. But in 2008, it has been replaced by Vietnam. Following are the important features of retailing in India:

Faster Growth Rate of Organised Retail as compared to Unorganised Retail

The organised retail has grown at a much higher rate as compared to unorganised retail in India during last few years.

- The organised retail has been showing annual growth rate of over 35% for many years and 10-15 million sq ft quality space being added every year. Overall retail industry is growing at 8-10% per annum. Thus, proportionate share of organised retail in total retail is projected to move up to 25% by 2015 from 5% in 2007.
- As per Technopak Advisors' report the size of total retail market in India is projected to be USD 800 billion by 2017 from USD 340 billion in 2007.
- The total investment into modern retail formats likely to be USD 36 billion by 2011 by both global and Indian retail majors.
- Almost two-third of total retail investment is going into modern retail formats—hypermarkets, supermarkets and specialty stores.

Faster growth of organised retail has been made possible because of various economic and other growth factors discussed under growth drivers in this chapter.

Smaller Cities are also participating in Retail Growth

Retail growth is not just confined to metros like Delhi, Mumbai, Kolkata, Bangalore, Chennai, but non-metros like Surat, Indore, Chandigarh and small cities and towns are catching up very fast. The retailers may start with small formats like supermarkets in small cities and towns. Many retailers started with rural market-specific formats to penetrate market more effectively.

Indian market is well diversified and almost every type of customer is found here as can be found in other parts of the world. In cities of south India like Hyderabad, Bangalore, Chennai, etc. the degree of organisation of retail trade is higher in comparison to cities in other parts of India and most of big retailers seen today have originated from South Indian cities.

Entry of Global Giants

Though many MNC single brand retailers like Provogue, Adidas, Reebok, Lacoste, Espirit, Lee Cooper

Fundamentals of Retailing

have been present in India for a long time. Global Retail Giants like Wal-Mart, Carrefour, Shoprite, Costco, Mark and Spencer are also targeting a share of Indian retail pie and have big plans for India.

Proliferation of Local Players

In addition to above big players with pan India presence, a number of local and small players in metros as well as small towns are also chasing the big retail dream.

• Mumbai : Magnet, D-Mart, Foodland Fresh

• New Delhi/Gurgaon: Garg Dastak and Big Apple

• Bangalore: Sunday to Monday (Hypermarket) and Valdel Retail

Pune: Spicelife Surat: Dhiraj Sons

• Nagpur: Purti Supermarkets

There are certain success stories like Vishal Retail, who made a humble beginning from one store in Kolkatta's Lal Bazaar in 1986 to a become one of the most prominent players at national level with presence across 94 cities in 20 states of India by year 2008.

Radhakrishna Foodland with presence in pockets of Maharashtra and turnover of Rs 500 crore, has the ambition to become a national player.

Consolidation of Indian Retail Market

India retail market, like in China is currently dominated by small players. In China, the largest retailer is not commanding even 2% of the retail market.

But, the process of consolidation has already started in highly fragmented retail industry. The more successful and profit making retail chains have started acquiring less profitable retail chains. It is also termed as cannibalism. Following acquisitions confirm this trend:

- Adani Retail by Reliance Retail
- Trinethra Super Retail Ltd by A V Birla Group
- Trent's acquisition of 76% stake in Landmark Mega-stores
- Barista by Lavazza (Italy)
- Piramyd by Indiabulls

In addition, there are significant private equity investments into retail organisations by institutional investors like Sequoia in Cafe Coffee Day, UTI Ventures in Koutons and Kotak Private Equity in Home Solutions Retail, Warburg Pincus in Radhakrishna Foodland. Consolidation may gain further momentum with entry of more global giants exploring opportunities for inorganic growth.

In India, total turnover of top eight and top fifty retail players is likely to be USD 80 billion and USD110 billion, respectively by 2014. The term Seller Concentration Ratio can be used to describe this kind of situation. It is the percentage of market share controlled by few top retailers. Presently it is very low in India, but with advent of modern retail, it is likely to go up.

Rise of Online Shopping

The increase in the use of personal computers and internet along with the growing preference of Indian consumers to shop online has given a tremendous boost to e-tailing—the online version of retail shopping. An estimated 10 percent of the total e-commerce market is accounted by e-tailing.

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With internet penetration, net-savvy Indians are making more and more online purchases. Both the number and variety of products sold online has grown exponentially. According to the Indian Marketing Research Bureau (IMRB), the e-retail market in India is estimated to grow by 30 per cent to USD 273.02 million in 2007-08 from USD 210.01 million in 2006-07.

There are over 49 million internet users in India. Significantly, internet penetration (as a percentage of population) has grown to 12 per cent, up 3 per cent from last year's 9 per cent.

In addition to the above features we can add on features of modern retailing discussed in Chapter 1. Private labels have further been discussed in the later chapters.

Overview of Different Sectors of Retailing in India

Product Category	Market Size USD Billion 2006	% Share 2006	Market Size USD Billion 2010	% Share 2010	Market Size USD Billion 2015	% Share 2015
Food, beverage etc.	195	65	256	60	342	54
Personal care	15	5	23	5	35	5
Apparel	21	7	33	8	50	8
Footwear	5	2	7	2	11	2
Furnishing	4	1	7	2	12	2
Durables & IT	14	5	24	6	43	7
Furniture	9	3	16	4	28	4
Jewellery & watches	s 15	5	24	6	37	6
Health services	8	3	12	3	21	3
Entertainment	2	.6	3	1	7	1
Others	12	4	23	5	53	8
Aggregate	300	100	427	100	637	100

Note: The total of figures may vary because of rounding off to nearest digits.

Reference: The Indus Entrepreneurs Report

Exhibit 2.2

These figures are indicative of the role that different product categories are likely to play in overall retail trade and give some idea about future despite some recent developments in the economy and resultant uncertainty. Some inferences are given as under:

- Market share of food items in overall retail is likely to come down. This is due to the fact that with
 increase in income levels, the expenditure on food items as a percentage of disposable income
 comes down in comparison to other items.
- Though food is also associated with lifestyle, growth rate of luxury and other life style items like apparels, home furnishings, consumer durables, entertainment has been higher in comparison to food items in overall retail.

The data in Exhibit 2.3 supplements the above analysis. It gives an idea about the organised retail across different product categories as well as the potential of each category in the total retail trade.

Fundamentals of Retailing

Product Category (Organised Retail as % of Total Retail	Product Category	Organised Retail as % of Total Retail
Watches	45.6	Furnishings and Furniture	9.1
Footwear	37.8	Food and Beverages	6.9
Apparel and fashion accessorie	s 18.9	Entertainment	4.1
Books, music and gifts	12.6	Jewellery	2.8
Health products	10.6	Pharmaceuticals	2.6
Consumer durables	10.4	Food and Grocery	0.8

Reference: www.ncaer.com, accessed on March 25, 2009

Exhibit 2.3

We can also say that

- The retailing in watches, footwear, apparels, consumer durables etc. is much more organised in comparison to food and grocery, pharmaceuticals, and jewellery. Currently, degree of organisation across different product categories in retailing is not uniform. But, it is likely to be more consistent in future.
- Though the food items constitute the largest chunk of total retailing, but is currently dominated by small players such as Kirana Stores. Organised players command just 1% of the total food and grocery retail. Thus, it has great potential and is attracting a lot of investment in the form of supermarkets and hypermarket retail formats. However, profit margins in food and grocery retailing are very low.
- The organised players will capture 40% of the retail market for telecom products inclusive of mobile phones by 2010 as many retailers like Mobile Store, Subhiksha Mobile and M Bazar, Hotspot have big expansion plans for mobile handset and telecom product market. Currently, it is around 8%.

■●■ Growth Factors of Retailing in India

Retailing in India is evolving as per global meta-trends. In India, the development of modern retailing has been supported by strong fundamentals of economy. Broadly, the growth factors can be divided into two categories

- 1. Demand Side Factors
- 2. Supply Side Factors

These factors are given as under:

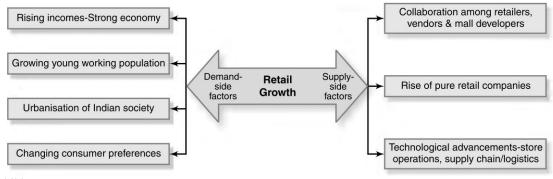


Exhibit 2.4

1. Demand-Side Factors

Demand side factors are led by strong fundamentals of economy which has impact on society and consumer preferences.

Rising Incomes-Strong Economy Based on strong fundamentals, the economy has shown consistent robust growth during last few years. Indian economy has been the second fastest growing economy in the world after China for the last few years. Current retail boom is led by high private consumption as a percentage of GDP.

- India is a trillion dollar economy now.
- The middle and upper middle class population has been doubled in last one decade to 400 million with higher disposable income and propensity to spend. According to NCEAR, Indian middle class (household income between USD 4,500-23,000) currently at 92 million is projected to cross 153 million by 2010.
- More than 300 million are likely to patronize modern retail chains from current figure of 60 million.
- With the number of millionaires growing at the rate of 20%, the number reached 1,23,000 at the end of year 2007. Thus, India has been the fastest wealth creator in the world in recent years.
- As per certain survey reports, majority of respondents are upbeat on future of their economic and job prospects, personal finances and spending plans. Thus consumer confidence is high.

The implementation of the Fifth Pay Commission recommendations in 1997 increased the purchasing power of government employees which constitute a major chunk of middle class. It gave an impetus to retail sector in India. Now, with the decision to implement the recommendations of the Sixth Pay Commission in 2008 and the release of thousands of crores into the economic system the retail tempo is expected to be maintained.

Growing Young Working Population The second most important aspect of retail growth is significant demographic transition.

India is comparatively a younger society and its consumer base is characterised by a large young working population. Almost half of the population is below 24 years and 70% of the population is below 35 years. The following comparison depicts that India is better positioned in terms of younger population in comparison to other countries as shown in the following table (Exhibit 2.5).

Percentage of Popu	ılation below 25 years			
India	53	USA	30	
China	42	Japan	27	
Indonesia	30	Germany	26	

Reference: Technopalz Advisors, November 2, 2007

Exhibit 2.5

The internet savvy **GEN Y** is the focus of retailers' marketing efforts. Finding that population is ageing in their own domestic markets, many MNC fashion retailers are setting their shops across India targeting these young consumers.

- Women's share in workforce is increasing. Now women are occupying higher positions, their role in decision making has increased.
- Due to small family size in urban India, the children are getting more attention of their parents and are playing adulthood and decision-maker roles at younger stages of their lives. This is also reflected in their purchase decisions.

With changing lifestyles, consumption pattern and buying behaviour, retailers are using their potential to combine entertainment, dining and shopping in modern retail formats.

Urbanisation of Society Economy led by robust growth in service sector is another important factor for urbanisation of society and retail growth. Villages are turning into small towns, towns into cities and so on. Urbanisation is expected to increase from 28% in 2007 to 40% by 2020 and is characterised by

- Nuclear families
- Growth of professions
- Increasing working women population
- Due to lack of space, quality housing and high realty prices in interior parts of cities, people have started relocating to the semi-urban and out of city locations
- Importance of concepts like flexiplace employment and small office home office (SOHO) has been increasing as people do not have to move to conventional places to work
- With better road and telecom connectivity, rural-urban differentiation will come down in future

2. Supply Side Factors

With more retail becoming organised in India, the supply side is showing definite signs of improvement, but still we have long way to go to catch up with other parts of the world. Supply side factors facilitated overall growth of modern retail in India:

Collaboration among Retailers, Vendors, Mall Developers Partnerships among retailers, vendors and small developers are important for integrated development of retail in India.

- In India, the retail revolution is accompanied by boom in housing sector. Realty developers like DLF, Ansal, Parsvnath, Raheja, TDI were the first ones to develop modern retail properties like malls. Thus, they have acted as market makers. The big retail players moved into these newly developed properties as anchor store/s. Stopper's Stop is a venture of K. Raheja Group, basically a real estate developer.
- The retail was further supported by proliferation of credit card/plastic money and consumer financing by banks and other institutions. Such collaborations among various institutes were missing earlier.
- Now many important activities are being outsourced.

There are many consultants like Technopak, Idiom Design and Consulting, Retail Biz, Restore Solutions to help retailers in operations, designing, etc. Besides, companies like Infosys, Wipro, Polaris are offering IT solutions to retailers.

Technological Advancements As per International Product Life Cycle Theory, modern retailing is still in initial phase of development in India and should wait for several years to achieve developed status.

- In increasingly globalised world, technological gap between developed and developing countries has been bridged considerably during recent years.
- Furthermore, Indian retailers does not have any legacy assets to take care of. There is opportunity
 to leapfrog and directly adopt state of art features available elsewhere in the world due to
 advancements in technology. Thus, it does not have to pass through all developmental phases of
 retailing.
- Now technology is available in all areas, ranging from location and site selection, to designing and layout of store to inventory management to store operations to merchandising.

Rise of Pure Retail Companies Recent years have witnessed emergence of a number of "Pure Retail" breed companies with retailing being their bread and butter. Thus, these organisations are more focused

on retailing. As per indications, this number is to expand in future. Examples are Subhiksha, and Future group.

- Pantaloon Retail (India) Ltd and Home Solutions Retail are two of many subsidiaries of Future Group. Even flagship company Pantaloon is hiving-off Big Bazaar (hypremarket) and Food Bazar (supermarket) on the basis of size of market captured independently. Big Bazaar format has already achieved turnover of one billion dollar company (2007) and is projected to have turnover of four billion dollars by 2011.
- Some of the big retailers are part of conglomerates like Reliance Retail is a part of Reliance Industries Ltd. Reliance Retail is consolidating its position very fast to become a formidable player in years to come. It has started many formats as subsidiary companies of Reliance Retail which may ultimately become independent companies.

Policy Reforms Indian government allows 51 per cent foreign direct investment (FDI) in single brand retailing owing to which foreign multinationals like Nike, Reebok, Louis Vuitton, Armani can now operate directly in the Indian markets instead of going through earlier franchise route. Allowing 100% FDI in cash and carry format is also an important step towards organised distribution and development of retail in India.

■●■ Role of Retail in Nation's Economy

Importance of retail goes much beyond being just a trading activity and channel of distribution. It is a key indicator of performance of economy. Currently, the combined sales turnover of retail sector in India is around 39% of the GDP, which is quite significant, but size of GDP itself is not very high for a country size like India. The contribution of retailing to GDP is 10%.

- Sales turnover of Wal-Mart which is around \$315 billion in the year 2007, is comparable to the total turnover of retail industry in India.
- The sales turnover of Wal-Mart is further 8% of total US retail sales. Thus, Wal-Mart enjoys a very prominent position in the US economy.

It clearly indicates that retail organisations are likely to play a crucial role in Indian economy as well.

Employment Generation

Wal-Mart, with 1.8 million workforce, is the largest employer in the world. In India, employment in retailing is only 7-8% of total workforce as compared to 17% in USA.

- The share of organised retailing in India, which is around 8%, is currently very low as compared to other developed and developing countries. Thus, India has a lot of potential in employment generation in the retail sector. According to KSA Technopak study, it has the potential of creating over 2 million direct jobs within the next few years.
- A strong retail front-end can also boost tourism and hospitality, agriculture, food processing, handicrafts, and small and medium manufacturing enterprises, creating millions of new jobs indirectly, a number comparable to BPO/ITES sector.
- Through its strong linkages with tourism and hospitality, retailing has the potential of creating jobs in these sectors also.

Thus, retailing can have multiplier impact on overall employment situation.

Higher Tax Collections

Tax revenues of government are likely to go up with increase in organised retailing. That is the reason that government wants retail trade to become more organised in nature.

- As per experience world-over, the tax compliance of organised retailers is better. Organised retailers are registered with taxation and other government authorities, so their visibility is better.
- Efficiency of tax collection goes up with large retail formats.

Economies of Scale and Higher Productivity

It is imperative for any retailer with big and pan-India plans to make huge investment in supply chain infrastructure to make it more integrated.

- A recent study by Future Group exhibits that every Rs 100 increase in urban consumption takes rural income up by Rs 39. It raises standard of living in rural areas, and thus, boosting rural retailing.
- With better integration of both back and front ends of supply chain, retailers, especially food can be assured of consistency of supplies and achieve economies of scale.
- Productivity in rural areas also goes up in the farming and allied sectors with introduction of technology and investment of funds by big retailers and their supply chain partners which is required at every step of value chain from field harvesting, storage, processing till product reaches retail shelves.
- In the same manner, with adoption of modern retailing practices and integration in supply chain, the textile industry can become more competitive as happened in China and other South East Asian markets.

Here, it is important to mention that food and grocery and apparels are the most important segments of retail industry.

Exposure to International Manufacturing Practices

The quality and quantity of Indian manufactured products can improve further as they replicate their international experience.

By working closely with international retailers, there is scope for local vendors to improve their
manufacturing practices. Here example of Wal-Mart entry into China can be given. After opening
few stores in China and entering into collaboration with local manufacturers, its outsourcing to its
stores in other parts of world has increased manifold.

Here it is important to mention that Wal-Mart, JC Penny, GAP, Tesco, Marks and Spencer to name a few are already procuring from India. Wal-Mart's sourcing operations were estimated at USD one billion, Tesco's around USD 100 million and Marks and Spencer around USD 145 million. The total volume of procurement is very low in comparison to China.

We can take example of SSIPL Retail Ltd. (formerly Moja Shoes Pvt Ltd.). It started as contract manufacturer of sports, lifestyle, beauty and luxury products for Nike, Reebok and other brands but also started retailing its products in domestic markets. It has almost complete control over its value chain.

The experience gained through working with MNC retailers and brands, is generally helpful in getting foothold of and scaling up in local markets.

Though there are certain socio-political sensitivities involved on issues like permitting FDI in retail, the entry of transnational retailers can give a boost to Indian manufacturing.

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Keeping Rate of Inflation Low

By citing example of USA, it is important to mention that high leverage the big retailers like Wal-Mart enjoy *vis-a-vis* manufacturers, and competition among retailers has helped to keep the rate of inflation low.

- Demand in retail sector is seen as prime indicator of demand in the economy. Retail Price Index is a measure of Inflation.
- Large retailers through dis-intermediation, higher scales and through global sourcing options have able to reduce the prices in several categories of consumer products, though food prices have shown an inflationary trend during 2008 as input costs are rising.

■●■ Retailing in Rural India

India is basically a rural society as two third of its population resides in villages which offers vast market opportunities. In addition to villages, there are thousands of small towns and cities in India which are directly dependent upon rural areas for their economic survival. The following are the main features of rural retailing.

- The rural market is dominated by Kirana Stores, Haats and Melas.
- It is culturally diverse and highly fragmented—spread over more than six lakh villages.
- Mainly dependent upon agriculture which generate seasonal income, mostly twice a year. Thus, purchasing power of rural consumers is not uniform during the year as there is no significant regular source of income in most of the cases.
- Generally standard of living of rural customers is not very high and their outlook is conservative. Due to low penetration level of refrigerators, storage of food products is a problem which is further aggravated by erratic electricity supply. So rural customers prefer purchasing in low volumes and their purchase frequency is high.
- Inadequate infrastructure in terms of roads, warehouses, communications, consumer finance etc.

Potential of Rural Retailing in India

Led by the rising purchasing power, changing consumption patterns, increased access to information and communication technology and improving infrastructure, rural retail market holds great potential for retailers. Many retailers in India are firming up concrete plans to tap the rural retail market.

Two statistics are important for rural retailing, firstly its share in total retail is to increase and secondly, within rural retail, modern retail is to go up. The following points reflect upon growth potential of rural retailing.

- Rural per capita consumption of FMCGs will catch up with the current urban levels by 2017. As per expert reports the FMCG sector in rural areas to grow 40% in comparison to 25% in urban areas.
- Right now, only one out of six rural customers has access to organised retailing or distribution. So, rural marketing has tremendous potential for growth.
- A major part of much talked about 'Bottom of Pyramid' consumer class resides in villages.
- There is shift towards higher value consumption among rural consumers like from tooth powder towards tooth paste, from local brands towards national brands.
- With diversification of agriculture, modern agriculture practices like use of genetically modified crops and moreover prices of agricultural commodities showing upward trend world-over, the rural incomes are likely to go up.

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 - Rural areas account for half the total market for television sets, fans, pressure cookers, bicycles, washing soap, blades, tea, salt and toothpowder.
 - In case of major FMCG categories such as personal care, fabric care and hot beverages, the share of rural market is 40%, which is a very positive indication.
 - Though internet penetration is currently very low in rural areas, but concepts like m-cash by ICICI bank can provide an impetus to rural retailing as mobile telephony has made rapids into rural markets. They can help in better integration of rural markets with their urban counterparts.

Currently, the presence of modern retail formats in rural areas is negligible. Rural retail market is at nascent stage and it seems logical to take early mover advantage. The potential is immense. But right now, investment in rural retail market is very low as focus is to grab urban market.

Comparison of Rural Market with Urban Market

Comparison of rural and urban market gives us more idea about future prospects of rural market.

Basis of Comparison	Rural Market	Urban Market
Number of highest income level households(in millions)	1.6 (41%)	2.3 (59%)
Number of middle and high income level households (in millions)	111 (65%)	59 (35%)
Ratio of lower middle income households	2 (67%)	1(33%)

Reference: NCAER Report

Exhibit 2.6

- It is growing at double the rate of urban markets.
- The sales growth rate of FMCG products in rural markets is much higher as compared to the urban market. The market size of FMCG is projected to be double around \$23.5 billion by 2010. The expanding rural market is likely to fuel this growth.

Product Category	Rural Market	Urban Market
Entertainment	33	67
Consumer Services	44	56
Consumer Durables	50	50
FMCGs	57	43
Clothing and Footwear	61	39
Food Items	64	36

Reference: Indiabiznews, November 16, 2007

Exhibit 2.7 Split of Total Consumer Spending Rural-Urban Markets in Percentage Terms

It is important to mention that retailing in rural areas is not everybody's cup of tea and needs considerable research by the retailers to perfect their retail strategies. It also needs lots of patience and investment. Many retailers and big brands—both FMCG and consumer durables, have made their presence felt in rural markets with the help of their fine-tuned strategy and persistent efforts in anticipation of reaping long term benefits.

Major Players in Rural Market

The following examples will reflect upon serious efforts made by organisations to tap the rural markets.

Hindustan Unilever Ltd Hindustan Unilever Limited (HUL) is India's largest Fast Moving Consumer Goods (FMCG) company, with leadership in home and personal care products and foods and beverages. HUL's brands, spread across 20 distinct consumer categories, touch the lives of two out of three Indians. It is basically not a retailer, but set an example before retailers and other brand manufacturers how to tap rural market.

Its major brands included Lifebuoy, Lux, Surf Excel, Rin, Wheel, Fair and Lovely, Pond's, Sunsilk, Clinic, Pepsodent, Close-up, Lakme, Brooke Bond, Kissan, Knorr-Annapurna, Kwality Wall's etc. Company has set an extensive distribution-dealer network and company managed communication network to reach out to rural consumers. It was pioneer in sachet revolution—offering consumer products like shampoos, washing powder, soaps, etc. in small packs at affordable prices. For example, fifty gm pack of Lifebuoy is available for Rs 2.

- HUL's Project Bharat was the first and largest rural home-to-home operation which has never been mounted by any other company. This initiative was started by HUL's personal products unit.
- Project Streamline was conceptualised to enhance its control on the rural supply chain through a network of rural sub-stockists based in the villages. This gave HUL the required competitive edge, and extended its direct reach to almost half of the country's rural population.
- Project Shakti was launched in partnership with Self-Help Groups of rural women. It also launched Sangam Direct and Project Millenium.

Thus, many brand manufacturers made inroads into rural market, and created awareness about the products among rural consumers. This actually worked as a platform for retailers and other brand manufacturers to develop and implement their plans for rural market.

Indian Tobacco Company ITC is a well diversified company started innovative ventures like e-choupal and Choupal Sagar to tap rural market on one hand and procure many commodities like foodgrains from rural market on the other.

Chaupal Sagar It is a well researched format specifically designed for rural markets by ITC.

- With an area of 7000 sq ft, it is a self-service retail format, stocking a sizeable range of products like tooth pastes, hair oils, TVs, mixer grinders, water pumps, fertilisers, seeds, etc. It also functions as a warehouse for the farm produce purchased through e-choupal.
- It serves as an information centre also. It has online information on commodity rates, weather, modern farming techniques, etc.
- In addition, offering of banking services with automated teller machines, insurance products, primary health services, fuel pumps are also parts of Choupal Sagar.

e-Choupal This is again specifically designed according to Indian agriculture conditions which is characterised by fragmented farms, inadequate infrastructure and involvement of numerous intermediaries in procurement process of agricultural produce.

- These operate from internet kiosks managed by the farmers, called sanchalaks.
- It gives farmers access to information on weather, market scenarios, scientific farm practices and risk management and facilitating the sale and purchase of farm inputs in their local languages.
- Internet based real-time information and customised knowledge help farmers to take various decisions and align their farm output with market demand.
- Further, the aggregation of the demand for farm inputs from individual farmers gives them access to high quality inputs from established and reputed manufacturers at fair prices.

As of July 2007, ITC e-Choupal services, through 6,400 e-Choupal across 8 states, reach more than 4 million farmers in around 40,000 villages. ITC intends scaling up the initiative with 20,000 e-Choupals and 700 Choupal Sagars to reach 10 million farmers in 100,000 villages by 2010. In addition to the above initiatives, the following initiatives are important in the direction of modern retail in rural areas.

Retail Organisation	Rural Format
Godrej	Aadhar
DCM	Hariyali Bazar
Tata Chemicals	Tata Kisan Sansar

Exhibit 2.8

Currently, rural retailing areas is not getting big investments from other big retailers as their focus is on urban markets, but it may become the final frontier for the retailers in the years to come. Even the MNC retailers which have big plans for India may not be in a position to ignore the Indian rural areas which is home to one-eighth of the world's consumer population.

Bottlenecks Facing the Retail Industry

The organised retailing is still at nascent stage. Though the overall environment has facilitated the growth of retailing in India as discussed in retail growth factors, yet it has to cope up with initial teething problems.

Some of the issues are relating to the infrastructure for which both the industry players and government have to play important roles. For certain issues like supply chain, the industry players have to collaborate efforts and investments. There are certain policy issues which can be addressed by the government only. On certain issues like technology, individual decision making and collaboration with technology partnership is important.

Taking clue from AT Kearney Reports, the important issues facing Indian retail industry are:

1. Underdeveloped Supply Chain Capabilities

- There is hardly any reliable national cold chain system. It results in agricultural wastages.
- Supplier network in rural areas is highly fragmented which leads to multiple levels of product handling. It results in deterioration of quality and increase in cost.
- Lack of national level distribution networks and hubs aggravate the problem. Prices at traditional mandis are highly erratic because of delinkage between supply and demand.
- Supply chains are tax driven instead of demand driven which hampers its rational integration.

Without supply chain capabilities, it is difficult to achieve economies of scale. Globally, a more efficient logistics infrastructure is maintained through road maintenance and capacity utilisation of rail network. Moreover, there are specialised refrigerated warehousing and cold storage companies in USA and UK.

2. Inadequate Utilities

- Poor connectivity due to inadequate public transport
- Road connectivity and rail network facilities and density needs to be improved

- Power supply, vital for maintenance of cold chains, is erratic and gap between demand and supply is very high.
- Low penetration of telecommunication and internet facilities, specially in small towns and rural areas

3. IT Infrastructure Hurdles

- The degree of automation at the point of sale system is low with most of the retailers yet to adopt barcoding while RFID is becoming the norm the worldover.
- Real time linkages between suppliers/warehouses and retailer stores are very poor.
- The online presence of retailers is still insignificant in comparison to developed countries.

4. Supply-based Hurdles

- Difficult to develop economies of scale due to fragmented supplier base.
- Supplier relationship management programmes are underdeveloped.
- Quality assurance processes are not stringent and need lot to be desired.
- No long term purchase agreements with suppliers-manufacturers and farmers.
- Sourcing and purchase decisions by Indian retailers are by and large tactical.

ITC, Godrej are procuring agricultural produce directly from farmers, but such instances are not very high. Wal-Mart have partnered with manufacture such as P&G to implement concept of 'Every Day Low Price' where prices and discounts are kept uniform throughout the year.

5. Inadequate Human Resources

- Lack of trained personnel with proper skill sets at all levels.
- Stringent employment and industry laws.
- Fragmented industry approach to human resources.

6. Limited Consumer Insights

- Lack of detailed region-specific consumer data.
- Lack of adequate data on consumer spending patterns.
- Absence of a central body to aggregate industry information.

7. Insufficient Government Incentives

- Lack of Industry-specific Incentives.
- Inconsistent agriculture and fertilizer subsidies.

8. Policy Related Hurdles

- Lack of industry status to retailers.
- Numerous license, permit and registration requirements.
- Farmers and retailer unfriendly Agriculture Produce Marketing Committee (APMC) Act.
- Poor coordination between the centre and states on various issues concerning retail.

9. Taxation Challenges

- Inconsistent octroi and entry tax structures.
- VAT and multiple taxation issues.
- Large grey market presence which adds to unhealthy competition in retail industry.

10. Real Estate Hurdles

• High rental cost, up to 30% of revenue goes out in the form of real estate cost as compared to 5-6% towards in case of Wal-Mart world over. (*Though rentals can be 35-40% lower in case of anchor stores*.

Rent as %age of Sales	Indian Retailers	International Retailers
Hypermarkets	5-10	1-5
Specialty Retailer	15-30	10-12

Reference: mint, September 26, 2008, p. 11

Exhibit 2.9

For comparable location in terms of business opportunity across different cities in the world, the rentals are high in India as shown in this table:

Retail Rentals Across Diff	erent Cities in the World (i	in Rs per sq ft per mo	nth)
Tokyo	2,344	New Delhi	1,200
Hong Kong	2,188	Beijing	6,26
New York	1,500	Bangkok	2,44

Reference: mint, September 26, 2008, p. 11

Exhibit 2.10

- Variation of zoning laws from one state to another.
- Non-availability of Government land and fragmented private land holdings make it difficult to acquire land for retailers for big retail formats, retail distribution centres.
- Archaic and user unfriendly land laws like Urban Land Ceiling Act, high stamp duties.
- Lack of proper city planning model.

Despite all bottlenecks, retail market in India continues to be attractive.

According to Assocham, riding on the retail boom, corporate majors including Reliance Retail, Aditya Birla Group and DLF have unveiled plans to invest Rs 1,32,000 crore for expanding network of by the year 2012-13.

In addition, ITC, Indiabulls, Vishal Retails, Koutons are other formidable players with countrywide presence in retail. Pizza Hut, McDonald's, Yo!China, Copper Chimney, Club City, Café Coffee Day, Baskin Robbins, Kwality Walls are the most retail food brands in India. The Bata, Raymonds, Gili (diamond studded jewellery), Ethos (watches), D'damas (Jewellery), Puma, Esprit, Adidas, Cygnus, Provogue, Lacoste, Reebok, Allensolly, Woodland, HideSign, Samsonite, Metro Shoes, Tomy Hilfiger, Maspar (home furnishings), Well Spun are well established brands across different product catogories in India. PVR, Adlabs and Cinemax India are significant retail players in entertainment.

Now, India is on the investment radar of almost every global retail giants. Wal-Mart, Carrefour, Metro, Shoprite, Tesco, Starbucks and Burger King have already entered the Indian retail market or have big plans for it.

■●■ India in Comparison to the World in Retailing

India is a developing country, so is China. There are many common characteristics in terms of size of population and area, history so that comparison between two countries becomes natural.

In the following passages, retailing in India has been compared with other parts of the world:

1. Organised retailing is at a developing stage in India and currently dominated by small retail formats as has been discussed earlier. It is also the reflection of the stage of development of economy.

Country	Organised	Unorganised
USA	85	15
Taiwan	81	19
Malaysia	55	45
Indonesia	30	70
China	20	80
India	08	92

Reference: Ernst & Young, Deloitte Haskins & Sells

Exhibit 2.11

- 2. As per one assessment, China is eight years ahead of India in terms of development of retail. It means what India achieved in retail by the end of 2008 has already been achieved by China in 2000.
- 3. In USA per capita retail spending is USD 13,259 (2007) while in India it is around USD 330. In China, per capita retail spending is almost twice that of India.
- 4. India at 2 sq ft has the lowest per capita retail space in the world while in USA it is 16 sq ft.
- 5. Number of retail outlets in India is 5.5 per 1000 people is very high in comparison to world standards. It is currently dominated by 12 million Kirana or neighbourhood stores.
- 6. Retail Industry is highly fragmented in India with top 10 retailers having only 2% market share. In comparison, five top retailers may be controlling upto 70-80% of the retail market in context of developed countries.
- 7. Only 4% of the stores in India have area more than 500 sq ft which is very low even in comparison to South East Asian countries.

Key Players in Indian Retail Market

Name of	Sales	Main Categories	Principal Fascia	Current Format/s	Number of	Future Plans
(Year of Establishment)	(9 mu)				Outlets	
Pantaloon Retail (1) Ltd. (1993)	869 (2006-7)	Food, Apparel, Home & Many Others	Big Bazaar, Top 10, Food Bazaar, All Central, BF, Pantaloons, Depot, Hometown, Navaras, Blue Sky, Fashion Station, Tulsi	Wide Spectrum of Retail Formats	More than 450	Aggressive expansion plans in both value and lifestyle retailing
Reliance Retail Ltd. (2006)	N A	Food, Apparel, Books Footwear, Jewellery	Reliance Fresh, Reliance Mart, Reliance Digital, Reliance Footprints, Reliance Wellness, Reliance Jewellery	Super, Hypermarkets, Lifestyle, Specialty	More than 850	Initial plans to invest USD 5.6 bn, aggressive expansion plans, private labels (supply to Kirana stores also)
Shopper's Stop Ltd. (1991)	202 (2006-7)	Apparel, Accessories, Gift, Home	Shopper's Stop, Home Stop, Mothercare, Crosswords, Desicaffe, Brio	Lifestyle, Department More than 100 Stores & Specialty	More than 100	Airport retailing, catalogue retailing with Hypercity Retail (I) Ltd., Entertainment Industry (acquired 45% stake in Timezone Entertainment Pvt. Ltd.)
Tata Trent Ltd. (1998)	53 (2006-7)	Apparel, Specialty— Books and Music	Westside, Landmark, Star India Bazaar	Supermarkets, Hypermarkets	NA	Infiniti retail, JV with Inditex to promote Zara, Cash & Carry with Tesco, 50 star bazaars in 5 years
RPG Enterprises (1988)	182 (2006-7)	Food, Beauty, Specialty Music	Spencer's, Music World	Supermarkets, Hypermarkets	279	Setting up 2000 stores by 2009

(Contd.)

Landmark Group (1999)	Z A	Apparel, Home Decor, Lifestyle, and Furnishing Centre, Max R	Lifestyle, Home Centre, Max Retail	Department Stores, Hypermarkets	Lifestyle-10, Max Retail - 4	Department Stores, Lifestyle-10, Presence in mini metros Hypermarkets Max Retail - 4 and Tier-II cities
Madura Garments— part of AB Nuvo (1988)	NA	Apparel	Louis Philippe, Van Heusen, Allen Solly, SF Jeans, Peter England	Specialty, Lifestyle	Planet Fashion - 50, Trouser Town - 9	300 outlets by 2009, diversification into women segment
Vivek Group (1965)	91.5	Food, Beauty, Specialty— Electronics	Vivek, Jaisons, Premier	Hypermarkets, Supermarkets	Vivek - 23, Jaisons - 26, Premier - 3	To set 60 stores in South India
Globus (1998)	N A	Apparel	Globus, F21	Stand alone Formats	21	More than 100 stores, private labels
Nilgiri's Ltd. (1904)	30.5 (2006-7)	Food, Specialty— Bakery Products	Nilgiris	Supermarkets	NA	Increase to 100
Trinethra Super Retail Ltd. (1986)	58.5 (2006-7)	Food, Beauty Products	Trinethra Super Retail Ltd., Trinethra Quick Shop	Convenience, Super 150 & Hypermarkets	150	To enter into pharmacies, apparel and footwear
Provogue Ltd. (1997)	38.1	Apparel, Footwear	Provogue, Prozone	Standalone Stores	139	To manage and develop malls
Bata India Ltd. (1931)	179.8	Footwear and Accessories	Bata	Standalone Stores	1,100	To remodel 150 stores and open 40 more stores
Archies Ltd. (1979)	20.8	Specialty—Cards and Archies, Stupid Cupid Gifts	Archies, Stupid Cupid	Standalone Stores	73	To increase to 200 or more

(Contd.)

(Information given is just indicative for developing some understanding among students and may not be most comprehensive, e.g.; only few names have been mentioned under Principal Fascia in case of Pantaloon Retail (I) Ltd. The current figures and contents may vary. NA stands for Not Available.) Reference: India Brand Equity Foundation, December 2008; www.tata.com accessed on May 17, 2009; www.ril.com accessed on May 17, 2009.

Few Players Across Retail Verticals in India

Food & Grocery	Clothing and Textiles	Jewellery and Watches	Footwear
• Magna	Pyramid	• Tissot	• Reebok
 Cafe' Coffee Day 	Levi's	 Tanishq 	 Liberty
Apna Bazar	• Ebony	• Gili	• Bata
 Reliance Fresh 	 Pepe Jeans 	 Kiah 	 Adidas
• More	 Raymonds 	 Carbon 	 Woodland
 Fabmall 	 Lee Kooper 	• JBL	 Nike
• Spencer's	 Nalli 	 Nakshtra 	 Mochi
 McDonald's 	 Peter England 	• D'damas	 Khadim's
• 6ten	 Kappa 		
 Food Bazar 	 Mango 		
Big Bazaar			
 Easy Day 			
Electronics	Beauty Care	Books and Music	Furnishing and Furnitur
• Croma	• L'orreal	• Depot	Raymonds
• Next	 Amway 	 Music World 	 Bombay Dyeing
• Sony	 Revlon 	 Crossword 	 Durian
 Reliance Digital 	Health Glow	 Hallmark 	 Nilkamal
• Philips	 Biotiue 	 Planet M 	 Gautier
• Samsung	• new - u (Dabur)		 Pantaloon
 Whirlpool 	 Maybelline 		 Welspun
 Onida 	 Lakme 		 Lifestyle
Onida			
Omda	 Himalaya 		 Carmicheal house

Reference: India Brand Equity Foundation; December, 2008

[Summary]

- ➤ There are different theories to explain the development of retail. According to Wheel of Retailing theory, the development of retail can be divided into three phases—Entry Phase, Trade-Up Phase and Vulnerability Phase.
- ➤ Retail Accordion Theory explains evolution of retailing in the context of settlement of human population. As per the theory, generally the retailers start from general merchandise and add more merchandise at later stages and so on. So it is also called **General Specific General** Theory.
- ➤ Dialectic Process Theory states that new retail formats emerge through combination of existing formats which may be entirely different from each other.
- As per Theory of Natural Selection, only the retailers and retail formats adopting themselves according to changes in the environment would succeed in the long run.
- ➤ USA is the biggest retail market in the world. The retailing evolved through bartering, peddlers, general stores, supermarkets, departmental stores. After World War II, the discount formats, led by

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- retail chains like Wal-Mart became very popular. The nineties witnessed the emergence of internet retailing and multichannel retailing gained more currency.
- > Trade and commerce have always been the hallmark of Indian society, starting with barter system. India, being a diverse society with traditional retailing, imbibes more elements of modern retailing. There are many retail institutions started directly by the government or with active government support, the examples being Public Distribution System, KVIC to name a few.
- ➤ The fast growth of organised retail, smaller cities being participants in the growth, entry of global giants, proliferation of local players, consolidation of retail market, rise of online shopping are the main features of current retail scenario in India.
- ➤ Demand side factors of retail growth include rising income levels, young working population, urbanisation of society. Supply side factors include collaboration among the retailers, vendors and mall or real estate developers, technological advancements and rise of pure retail companies.
- ➤ The retail sector is playing increasingly more important role in the nation's economy. Employment generation, higher tax collections, achieving economies of scale and exposure to international manufacturing practices, controlling inflation are the main benefits.
- ➤ The growth rate of retail in rural sector is showing very high growth rates. It has immense potential. HUL, ITC, Godrej, Tata are the few names with significant presence in the rural sector. ITC has come out with rural market-specific retail formats such as Chaupal Sagar, e-Choupal.
- ➤ The retail sector is still at a experimental stage in India, except few pockets where it has gained significant market share. It is facing many problems in areas like supply chain and utilities, IT Infrastructure, supply base, human resources, government policies, taxation real estate, to name a few.
- ➤ India is lagging behind in comparison to many countries in terms of percentage of organised retail in total retail, per capita retail spending, disproportionate number of retail outlets, size of retail outlets but with increasing efficiencies and double digit growth during last few years, it is trying to catch up very fast.

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-{Revision Exercises}

■ ■ Very Short Answer Questions

- 1. What is DIY retail format?
- 2. What is Trade up Phase?
- 3. What is General-Specific-General theory?
- 4. How the demographic changes have helped in the expansion of modern retail in India?
- 5. What is 'Retailtainment'?
- 6. Under what conditions, the concept of discount stores became popular?
- 7. Enlist main features of Kirana Stores?
- 8. What is consolidation of retail?
- 9. Differentiate between demand side and supply side growth factors?
- 10. Enlist main players in rural market in India?
- 11. Write a brief note on pure retail companies.
- 12. Comment upon the share of food retailers in retail.

Short Answer Questions

- 13. Discuss cyclical theories of retailing.
- 14. What are the Dialectic Process and Theory of Natural Selection in context of development of retail?
- 15. Write a note on status of modern retail in India.
- 16. Write a note on rural retail in India.
- 17. Discuss the problems faced by retailers in context of supply chain and real estate in India?
- 18. Discuss the demand-linked growth factors for the development of retail in India.
- 19. What are supply sector factors for the development of retail in India?

Long Answer Questions

- 20. Discuss the key features of retail in India?
- 21. What role can retail play in the development of Indian economy and industry?
- 22. Discuss the main challenges faced by the Indian retail industry in context of recent developments.
- 23. How the retailing in India can be compared with rest of the world?
- 24. Write a note on government-supported retail in India. Do you see any role by government in development of retail in future?

CHAPTER

3

Types of Retailers: Store Based Retail Formats



After studying this chapter, you should be able to

- explain the concept and elements of retail formats
- ✓ understand the basic features of store based retailers
- ✓ elucidate the basic features of various food-oriented retail formats such as convenience retailers, supermarkets, hypermarkets
- ✓ elucidate the basic features of various general merchandise retail formats such as department stores, speciality retailers, off-price retailers, warehouse clubs etc.
- ✓ differentiate the various types of retail formats

■●■ Introduction

A shopper usually comes across many retailers in the marketplace, each having its own overall product offering. One retailer may be attracting customers due to its unbeatable location and visibility, other on the basis of discounted prices, someone on the basis of variety of merchandise or specialised product offering. If small retailers are ready to offer you the convenience of fulfilling the daily needs at your doorstep, the big retailers promise to offer better value in terms of competitive pricing and convenience of making all products available under the same roof. Then online retailers are trying to outsmart conventional retailers by killing time and distance constraints.

Thus, we can see that retail marketplace has become very competitive and challenging over a period of time. Market has already become due to increasing cultural and demographic diversity and changing lifestyles over a period of time. Every market has its own set of needs. Like any marketer, a retailer has to decide which kind of market it should cater to in a satisfactory manner. As a result, the retailer has to explore many options to differentiate themselves in the marketplace and appeal to its target customers. The options are available in the form of combining different elements of retail mix.

Retail mix is mainly deciding about merchandise, price, promotional mix, location, services extended etc. to serve the needs of target market in a satisfactory manner. Retail format is the popular term used for retail mix. It bears close resemblance with marketing mix. In the ensuing study, we will discuss the various retail formats, but before that, the discussion over various retail characteristics is a must.

■●■ Characteristics of Retailer on the Basis of Elements of Retail Mix

The performance of the retailer depends upon the planning and implementation of retail mix or strategy. That is the precise reason that elements of retail mix or strategy are taken as the essential characteristics of retailer. Here, example of making cake can be taken. The basic ingredients of making every type of cake are almost same, but variety of cakes can be made from them. The same is the case with retail mix. The various elements are being discussed in the form of retail characteristics

- **1.** Every Retailer Satisfies the Needs of Specific Market Segments It has become important for retailers to focus on their efforts on a specific market segment. Depending upon the size of market, the target market can be mass, exclusive and speciality market.
 - Mass Market retailers appeal to the largest market segment possible by selling products of certain basic needs to nearly all consumers. The number of retailers is high and consequently, the competition is fierce in this category of retailers.
 - Exclusive Market type of retailers differentiate themselves in product offerings so that some customers may be willing to pay a premium price. The size of the target market is not very large, it is usually upper end of the market.
 - Speciality Market is between mass and exclusive markets, which offers more options in a product line or lines but the market size is substantial.
- 2. Retailers Offer Merchandise Assortment and Variety merchandising is the most basic characteristic to reflect upon the nature of retailer. Retailers compete on the basis of variety and assortment. Variety is the number of different merchandise categories or product lines and is referred to as width of merchandise. Whereas, assortment is the number of selection options within a merchandise category they carry. Assortment is also referred to as depth of merchandise.

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Each retailer wants to offer maximum variety and assortment to its customers, but can be very costly as it increases investment in stock.

On the basis of variety and assortment, the retailers can be general merchandisers or speciality merchandisers.

- General Merchandisers carry a wide range of product categories, though the selection within a particular product line is limited. This is described as shallow depth and retailers play into volumes to make profits.
- *Speciality Merchandisers* offer few or even one product category, but the assortment available within those categories is very deep.

In this chapter, the retail formats have been discussed under two headings—food retailers and non-food retailers.

- **3. Retailers Adopt a Specific Pricing Strategy** Retailers must decide about basic pricing approach to use price as a competitive advantage or to seek competitive advantage in non-price ways. There are different approaches used for pricing.
 - *Discount Pricing* Retailer sells low-priced products with low-profit margin. To make profits, these retailers aim to sell in large volumes and keep overheads low.
 - Competitive Pricing Retailer aims to maximise appeal to different market segments. The retailers
 do not compete on low prices but at the same time does not seem to be charging premium prices.
 Retailers offer reasonable quality merchandise and ambient atmospherics to create higher customer
 value.
 - *Premium Pricing* Retailers target upper end of the market which are not so price sensitive. The value is enhanced through various services and customised solutions. While these retailers are not likely to sell in very high volumes, the profit margins are quite high.
- **4. Each Retailer Develops its own Promotional Mix** Retailers generate customer interest in the store and products by using a mix of variety of promotional tools and media vehicles. The main tools have been given below:
 - Advertising through traditional mass promotional methods such as newspapers or television, continue to be the best means for generating customer interest. Online marketing, outdoor advertising are also becoming important for advertisement in the retail.
 - Direct Mail is also referred as catalogue.
 - Sales Promotion Coupons, rebates and other price promotions are the most important sales promotion techniques.
 - Personal Selling Retailers have to make extensive use of their interpersonal skills, especially to sell high-end products. This can be used in the form of persuading shopper to purchase higher value product than originally intended and also in the form of suggestive selling to purchase other complimentary products. It is also known as buyer—seller dyad.

The retailers also use Customer Relationship Management (CRM) and customer loyalty programmes to support promotional efforts.

5. Distribution Method and Location On the basis of distribution method, retailers are of two types—Store based and Non Store based.

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 - (i) Store-based Retailers Store-based is the conventional and predominant method used by consumers to obtain products and services. This requires customers to visit the retail outlet physically. Store outlets can be further divided into following categories on the basis of location and physical connectivity of retail stores with one or more other stores.
 - **Stand-Alone Location** Standalone location stores are those stores when other retail stores are not connected with them.
 - **Strip-Shopping Centre** In this, two or more outlets are physically connected and share physical resources such as parking.
 - Mall Retail outlet may also be located in some shopping area or in mall.
 - **Central Business District** Termed as downtown areas, conventional market place. Sometimes, location of the store is taken as single most important factor strategic element of retail mix.
- (ii) *Non-Store Retailers* This does not require customers to physically visit a retail outlet and can make purchases from their convenient locations. The online selling, direct marketing and vending machines are important methods. If a retailer is using more than one channel of distribution to access customers, it is termed as multi-channeling.
- **6.** Level of Customer Services Retailers attract customers not only with desirable products and competitive prices, but also by offering services that enhance the purchase experience. There are generally three levels of retail service.
 - *Self-Service* Some shoppers perceive self-service as a benefit, as the efforts they make may be compensated by lower pricing.
 - Assorted Services Retailers offer some level of service to consumers. It includes handling the point-of-purchase transactions, product selection assistance, etc.
 - *Full Service* retailers attempt to handle nearly all aspects of purchase. Retailers charging a premium prices often offer full-services to shoppers to maximise customer value and shopping experience.

Retail Formats

The various characteristics actually represent elements of retail mix which is the basis for understanding and classification of concept of retail format. Different retail formats evolve in response to changes in the competitive environment, as we get some idea from different theories of retailing also. The basic components for retail formats are the same but it is the relative degree of focus by retailer on these components which becomes basis for formation of different retail formats.

Retail Format can be termed as combination of various elements of retail mix, to offer value to the target customers. It is the interface between retailer and the customers. It makes customers to visit the store to obtain goods and services and desired value. Sometimes, it is defined as Business Model of the Retailer. It is important to mention that every store has its own personality to appeal to its clientele.

The importance of retail formats can be gauged from the fact that most of the retailer organisations equate them with Strategic Business Units and can have separate operational infrastructure and organisational set-up for them.

Types of Retail Formats

For the sake of convenience, the store-based retailers have been categorised into Food-oriented retailers and Non-Food or General Merchandise retailers.

S. No.	Food-Oriented Retailers	Non-Food Retailers
1.	Predominance of food items to generate revenues	Predominance of non-food items to generate revenues
2.	High frequency of purchase	Low frequency of purchase
3.	Low/average/unit/value/of merchandise	High average unit value of merchandise
4.	Less variety of formats	More variety of formats

Exhibit 3.1

Here it is pertinent to mention that many general merchandise items sold by food retailers are purchased quite frequently. That is the reason that these items are clubbed with food items.

Food-Oriented Retailers Food Retailers sell general merchandise also, but the proportion of revenue from food items is quite significant. The concept of convenience food has gained currency with rising income and changing lifestyle. Thus, it becomes meaningful to take food as a separate category for discussion. Traditionally, in India, food needs are being met by local daily fresh produce markets, weekly Kisan mandis and local traders.

According to Technopak studies, the percentage of food and grocery in overall retail is more than 70%. The organised retail in food and grocery segment India is worth \$1 billion and represents less than one percent of the total food sales. The food categories such as processed food, lifestyle food, organic food etc. have also created a niche for themselves in food retailing.

Shopping for food in India is not a weekend activity, especially for fruits and vegetables. Indians have variety of food habits due to cultural, religious and lifestyle diversity that is a challenge for retailer which is looking for pan-India presence to satisfy each market segment. The various Food Related Formats are:

- 1. Convenience Stores
- 2. Supermarkets
- 3. Hypermarkets
- 4. Supercentres

Convenience Stores Out of 12 million retailers in India, almost seven million sell food and grocery products. Traditionally, the convenience stores are run by a single trader and his family.

- A convenience store is typically a well-located, food-oriented retailer that is open for long hours and carries limited number of items.
- Average to limited variety and assortment, above average prices, average atmospherics and customer services.
- Ease of shopping, routine rapport with the owner-retailer is specifically appealing to the customers, offer over-the-counter delivery and may provide home delivery.
- Situated within residential areas thus reducing consumer's travelling time and customers can pay multiple visits during the week.
- Now with technology becoming affordable, these stores are gearing up their efficiency and level of services to compete with large formats.

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	
Tesco	Fresh and Easy	
Om Daily Needs	Pratidin	

Fundamentals of Retailing

Convenience stores are very popular in Japan, partly because of government policy of not encouraging large formats and partly due to fact that Japanese homes are small, as a result consumers prefer buying in smaller quantities. 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.

Supermarkets A supermarket is a self-service store offering a wide variety of food and household merchandise. Supermarkets usually are a part of a corporate chain. They usually follow centralised purchasing system and are supplied by distribution centres of the parent organisation.

- Organised into departments according to product categories. The supermarket typically comprises
 fresh fruits and vegetables, dairy products and baked food products, canned and packaged food, a
 variety of household goods.
- Both variety and assortment of merchandise are average.
- Usually situated near a residential area in order to be easily accessible and open for long hours.
- Certain supermarkets who offer less than average prices on routine basis, i.e., Every Day Low Pricing (EDLP). Margins on staple food items like bread, milk and sugar are very low. They may make profits by selling in large volumes.
- Supermarket retailers use mass media like newspapers and television channels for sales promotion.
- Supermarket is larger in size and offers wider selection than a traditional convenience and smaller than a hypermarket or supercenter. In context of Indian marketplace, the supermarkets are further categorised as:
 - (i) Large supermarkets with an area of 3,500-5,000 sq ft
 - (ii) Mini supermarkets with an area of 1,000-2,000 sq ft.

The Reliance Fresh and Subhiksha are respective examples of above two categories.

Retail Organisation	Supermarket Formats	
Spencers	Spencer's Super	
Future Group	Food Bazar	
Subhiksha (only one f	ormat) Subhiksha	
Reliance	Reliance Fresh, Reliance Super	r
Aditya Birla Group	'more'	
REI	6Ten	
Jubilant Group	Monday to Sunday	
DFI	Foodworld	

One of the pioneer supermarket chains, Foodworld Supermarket, was created in 1995 through a technical agreement RPG Group and Hong Kong-based Dairy Farm International (DFI). Later on RPG rebranded half of the stores as Spencer's.

Hypermarket The notion of the hypermarket is to provide everything 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:

- 1. A large floor space, varying between 40,000 sq ft to 200,000 sq ft, so that it can have the widest assortment of products. It is associated to a large parking lot.
- 2. It aims to sell products at a discount in comparison to market prices and thus offer low price points.

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3. It deploys self-service techniques based on effective merchandising and sales promotion methods. These techniques also lead to impulsive shopping that carries higher margins. The contribution of general merchandise in total sales is between 25 to 40%.

Big size and high number of footfalls lead to operational efficiencies and cost savings. They aim at 'monthly bulk shopper' or weekly shopper. Apart from grocery and food, hypermarkets sell a variety of products such as general merchandise, clothing, electronics items, electrical gadgets etc.

The concept of hypermarket started in France, in suburbs of Paris, under the name *Carrefour* in 1963. *Carrefour* is very successful in Europe, China and South America but not much in Japan. The other international giants in hypermarket format are Auchan, Casino, Tesco, ASDA, Intermarche.

This concept is becoming popular in India also as time starved customers prefer one-stop shopping. That is precisely the reason that one-third of total investment into modern retail is going into hypermarket format. The few examples of hypermarket format are given as under:

Re	etail Organisation	Hypermarket Format
Sp	pencers	Spencer's Hyper
Re	eliance Retail	Reliance Mart
Fu	iture Group	Big Bazaar
Fo	ood Express Chain	Jumbo, Total
Tr	rent (Tata Group)	Star India Bazar

Many hypermarkets choose sub-urban or out-of-town, stand-alone locations as they need huge space for merchandise and parking and other facilities. Sometimes they look like warehouse.

It can be located inside the malls also. E.g. Jumbo Saver in Gopalan Mall. These basically functions as anchor store to increase the footfalls.

Supercentre Supercentre is a combination store uniting an economy supermarket with a discount departmental store. Sometimes, Supercentre is also termed as American version of European HyperMarket. The general merchandise contributes 60-70% of total revenue. Some are selling even gasoline to attract customers. Supercentre stocks 1,00,000-1,50,000 SKUs. The largest supercentre chains in the USA are Wal-Mart, Meijer, Kmart, Target and Fred Meyer.

It is important to mention here that both hypermarkets and supercentres are also known as Big-Box food retailers.

Non-food or General Merchandise Retailers A retailer is generally defined as general merchandise retailer if more than half of the sales is generated from non-food or general merchandise items. It may include textile clothing, readymade garments, footwear and accessories, gift items, household items, home improvement items, computers, florists, books, electrical goods, automobiles and so on.

The variety in non-food formats results from the fact that there are more 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 specialises in selling a broad variety and deep assortment of product categories. It is organised into different departments such as apparel, house wares, cosmetics, sport goods, footwear, furniture, appliances, jewellery, toys etc.

• It tends to differentiate from other formats in terms of shopping experience and store atmospherics like visual displays, lighting.

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 - It is basically one-stop shop to fulfill general merchandise needs.
 - Store relies on suggestive selling by its sales team and provides variety of services like alteration of apparel and home delivery.
 - The categorisation of merchandise is done for the purpose of procurement of merchandise, category management, promotion, customer services and control.

The largest department store chains in USA are Sears, JC Penney, Federated Department Stores etc. Sears carries a wide range of products from hardware to cosmetics.

Some examples of department store chains in India are given as below:

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

The department stores are further divided into two categories: Traditional department stores and full line discount stores.

- (i) Traditional Department Stores Both prices and quality are from average to above average. The level of services can be from assorted to upscale. Some of the traditional stores are positioned as midrange to up-scale. For example, Sears and Macy in USA and Pantaloons in India targets middle-class shoppers interested in assortments and moderate prices.
- (ii) Full Line Discount Stores Offer broad product assortment at discounted prices. Many discount stores have started offering private labels so as to differentiate their product offerings. Their brands are less fashion-oriented. It offers very limited 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, S Mart, Super Sab ka Bazaar are popular discount store chains.

Speciality Store A speciality store is the retail format that specialises in a specific range of merchandise and complimentary items.

- It usually carries a narrow but deep assortment in the chosen category. It allows comparison between brands in a category.
- It formulates strategy for the given market segment. This helps to maintain better selection and sales expertise than competitors. Its main competition is with department stores.
- They provide high levels of service and expertise.
- Specialists stores offer 'Consultative Shopping' where a salesman is well-trained in offering specialised advice 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. There may not be too many stand-alone stores.

The speciality merchandisers can further be divided into two categories, the multiple lines and single line.

Multiple Lines Speciality Retailers Offer products across different categories which are usually interrelated. For example, multiple line and multi-brand electronics and consumer durables countrywide retail chains like Croma, Viveks and The Next fall into this category.

Single Line Speciality 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 Gitanjali group has positioned itself as leading diamond studded jewellery-manufacturing company under the brand Gili. The Ethos Swiss Watch Studio is India's largest chain for Swiss watches. Bata India is also an example of single line speciality retailer.

In Europe, Zara, a major speciality retailer in fashion apparel has strongly positioned itself as its 'design to market' implementation is very efficient. It has got its own production facilities to support the concept.

ITC's Wills Lifestyle is an example of exclusive or lifestyle speciality stores. It offers Wills Classic formal wear, Wills Clublife eveningwear and trendy range of designer accessories. 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. It has positioned itself as a trendy, young, colourful and vibrant store.

Kolkata-based Nik-Nish is a lifestyle gift speciality store chain offering 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.

Category Killer is also a type of speciality retailer and became very popular over a period of time. The approach of category killers is to dominate the category and kill the competition in that product category.

- It combines benefits of huge selection and low prices within a particular category so that it is able to convert most of the prospective buyers into actual buyers.
- They become 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 so that other players may find it difficult to operate profitably in that category. Many firms leave the industry thereby leaving only a few players. This increases the concentration ratio.
- They are able to make profits by keeping the overheads low as they offer only very basic facilities
 and high inventory turnover. The emergence of such stores has taken a toll on many department
 stores.

The most formidable example is Wal-Mart which replaced Toys 'R' Us as category killer. 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 are examples of category killers in different categories.

A good example 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. This target segment is different from typical discount store consumers and demand national brands. This retail format is growing at a very fast rate.

Pantaloons Retail (India) Limited has added a new chain stores of Fashion Value Retail in its portfolio-Brand Factory. It has tried to combine discount and better shopping experience into one. The Brand Factory outlets offer seamless space, be fully air-conditioned, slickly 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, Wrangler and Provogue. It offers specialised discounted products by brands, discount varying between 20% to 50%. The target customers are those belonging to the 20-35 years age-group. Mumbai-based The Loot store is another good example of value retailer.

Off-Price Retailers Off-price retailers offer an inconsistent variety and assortment of merchandise. There core competence lies in their ability to source merchandise from manufacturers at highly reduced prices in big lots.

- The merchandise is either out of fashion or of odd sizes and colours or with minor manufacturing defects or export rejects.
- They are able to strike a good bargain with vendors as they do not seek extra benefits like promotional
 expenses, flexibility to return the merchandise or markdown adjustments during end of season
 sales or credit terms.
- Sometimes to improve the consistency of their product offering, they mix up their low-priced opportunistic bought merchandise with merchandise bought at regular wholesaling prices. They make purchases from closed-out retailers also.
- Sometimes the image-conscious retailers offer excess merchandise 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 pay annual membership fees in order to shop.

- The clubs are able to keep prices low due to low their overheads.
- Customers are 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.

Costco Wholesale Club and Sam Club are the most formidable examples of Wholesale clubs.

Sam Club accounts for around 12% of Wal-Mart's sales and it has 47-million-plus members. Sam Club is a price leader globally and charges no more than 12% mark-up on items. The stores offer a range of products like food and grocery, office supplies, electronic goods, clothes, insurance and travel services.

In India, this model is allowed 100% foreign direct investment .The German giant Metro AG, Carrefour, South African Shoprite Holdings, SPAR International have already set up shops across different cities. The cash-and-carry is variant or another name given to wholesale club. Among Indian retailers, Big Bazaar and Reliance have already made a headway by setting up stores.

An extension of Big Bazaar, the Big Bazaar Wholesale Club offers multi-packs and bulk packs of a select range of merchandise at wholesale prices. The merchandise categories range from Food to FMCGs to Home Linen and many others. A typical Big Bazaar Wholesale Club is located adjacent to a Big Bazaar in the form of a separate section. The look and feel of a wholesale market is evident in the stores from the stacking styles and use of a lot of hand written signages by chalks on black slates.

If you enjoy shopping at wholesale markets for your entire family, or you have a huge circle of friends who would like to get together for their monthly shopping needs or if you are a retailer looking for wholesale offers then the Big Bazaar Wholesale Club is the place to shop at. To shop at the Big Bazaar Wholesale Club, you just need to enroll yourself as a member of the club. If you possess an Anmol card or an ICICI-Big Bazaar card then you are automatically enrolled as a member of the Big Bazaar Wholesale Club.

Reference: www.pantaloon.com accessed on 30.03.2009

Flea Market Flea Market is a traditional marketplace, thronged by shoppers from different walks of life. It is basically an open area occupied by different traders, occupation of market area is generally temporary, and facility of trading goods may be availed by paying some fee to municipal corporation or some other 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. Janpath in Delhi, Crawford and Zaveri Bazar in Mumbai can be taken as examples. In small cities areas near railway stations and bus-stands have usually flea markets. There can be weekly flea markets also.

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' carriers, passengers at times do not have much variety of food items in the plane. That has created demand for food retailers.

As per latest trends, airport retailing is growing at a very fast pace. In India, passenger traffic at the Mumbai airport alone is estimated to be 10-12,000 passengers a day by year 2012-13. Even at conversion rate of 20-25%, this may become financially viable. The same is the case with other major airports in India. 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 Goup with Alpha Retail, UK
- 3. Tata with Woolworth, Australia to start Croma Zip

In line with malls, anchor stores at airports, try to pull in shoppers on a routine basis to create a critical mass. The target audience comprises passengers, visitors and escorts. There is opportunity for retailers selling cookies, candies, casuals, formals, accessories, brown goods, white goods, perfumes, cosmetics, liquor and tobacco. The duty-free shopping is a major attraction.

Railway Retailing As location is a key factor in retailing, railway station is the natural destination of future retailing in India. The Metro railways 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 10-15% throws open opportunity far greater than airport retailing. All major retailers including 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.

■●■ Current Indian Scenario in Retail Formats

The retail format evolves in response to changes in the environment. The retail marketplace is evolving at a very rapid rate. Indian retail market and formats are quite different from changes elsewhere in the world. Some of the trends describing the current Indian scenario have been given below:

1. Retail Convergence Under this situation, most of the stores offer same type of merchandise mix and services, with pricing as the key differentiator. This kind of situation has arisen due to tendency of retailers to attract every type of customer to increase sales and profitability. The arrival of big retail formats has especially given impetus to such kind of environment. This blurring of images associated with different formats is termed as Retail Convergence. This has rendered the classification of retail formats useless.

Furthermore, keep increasing the variety of merchandise all the time is termed as scrambled merchandising. These days the retailers do not want to be dependent upon single product for generating revenues and margins. For example, consumer-durable retailers selling IT products and vice versa.

Type of Retail Format	Nature of Merchandise	Width and Depth of Merchandise	Type of Location	Pricing Policy	Level of Services	Promotional Mix
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 also	Personal Rapport Average Promotion
Supermarkets	Food, Grocery and Household Items	Extensive width Shallow depth May offer Private Labels	Neighbourhood Market	Competitive	Average and Self-service	Mass media Loyalty Programmes
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 (as anchor store also)	Lower than market Self-service prices	Self-service	Mass Media Loyalty Programmes
Traditional Department Stores	General Merchandise- Apparel, Accessories, Toys, Gift items, Sports Goods etc.	Extensive Width Deep depth Good to high Quality	Business Districts, Stand-alone Strip shopping centres	Above average	Assorted to Full Services	Suggestive selling Catalogues Mass Media
Full-Line Discount Stores	General Merchandise	Extensive width Medium depth Medium quality	Business Districts Stand-alone Strip shopping centres	Discount Pricing	Average Services	Mass Media Price-oriented promotion
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 also	Personalised Full Services	Suggestive selling Catalogues Visual Displays
Category Killer	Speciality Products	Narrow width Deep depth Average to High Quality	Stand-alone Strip shopping centres	Discount and Competitive Pricing	Assorted	Mass Media

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Off-Price Retailers	General Merchandise Inconsistent Out of fashion, odd sizes etc.	Medium width Shallow depth	Stand-alone Shopping strip Any low rent Iocation	Very low	Minimal services Self-service	Mass Media
Value Retailers	General Merchandise, Multi-brands	Medium width Shallow depth	Stand-alone, Shopping Strips Any low rent location	Highly Discounted Average prices	Average	Mass Media
Factory Outlets	General Merchandise Self-Manufactured items, Inconsistent	Moderate width Shallow depth	Stand-alone location, Factory Premises Any low rent location	Highly Discounted Self-service prices	Self-service	Low Promotions
Wholesale Clubs General Merchan Food ites Inconsist	General Merchandise and Food items, Inconsistent	Moderate width Shallow depth	Moderate width Stand-alone, out of Very low prices Shallow depth town, industrial areas	Very low prices	Low	Low promotions Direct mail
Flea Markets	Some General Merchandise Items	Extensive width but Open surroundings very shallow depth Low rent Semi-Urban Locations		Bargaining, Low prices	Low services	Limited, Point of Sales Promotion

Exhibit 3.3

2. *Multiple Formats* Internationally, most of the retail giants start operations with just one or two formats. When Carrefour the French giant entered China, they first adopted 'wait and watch' policy before going on expansion spree. Even Wal-Mart have adopted cautious approach and covered one region after another. In Thailand, Tesco entered with hypermarket format, then convenience stores and then planned supermarkets.

But contrary to international practices, many Indian retail giants started with many formats simultaneously across different parts of country. This may be primarily due to presence of diverse market segments and market is expanding at a very fast pace. Right now a lot of experimentation is going on and retailers are looking to take early mover advantage. The various retail formats of Reliance Retail have been given under the speciality retailer in this chapter. The number can be as high as 14 or even more as reports suggests.

Spencer's was operating through five different retail formats: Spencer's Hyper (30,000-75,000 sq ft), Spencer's Super (8,000-15,000 sq ft), Spencer's Daily (4,000-7,000 sq ft), Spencer's Express (1,000-1,500 sq ft) and Spencer's Fresh (1,200-2,000 sq ft).

Not only the food retailers, but consumer goods chains are also going for multiple formats. Such as Croma has two retail formats: The Electronics Megastore and Croma Zip. Croma Zip is 2,000-4,000 sq ft store tailormade for requirements of tech-savvy youth.

But the process of consolidation of retail formats is also taking place. Now as per restructuring exercise, the outlets spread between 3,000 sq ft and 15,000 sq ft will be named 'Spencer's' while those upwards of 25,000 sq ft will operate as 'Spencer's Hyper'. Now, all-store formats will maintain same service level under these brands.

Subhiksha, on the other hand, operates only one format, that is popular as **1200 sq ft** convenience store, located mostly in neighbourhood markets, offering fresh vegetables, grocery, pharmaceuticals and mobile phones under same roof.

- **3.** *Multi-channel Retailing* Now the store-based retailers in India are making forays into other channels of distribution such as electronic retailing, catalogues, kiosks to supplement their current store-based retail sales. Though the volumes may be currently very low, but they are likely to go up in near future.
 - Hindustan Lever Ltd. has started Sangam Direct, a network marketing, direct-to-home retail channel.
- **4.** Right now almost two-third of the investment is going in hypermarkets, supermarkets and speciality stores. The growth in speciality market can be attributed to rising income levels and predominance of youth among spenders. Currently, the big formats are special investment destination, but except Future Group, the hypermarket format has not taken off the way, it was desired by many other big retailers.
- **5.** Internationally, the food retailers get majority of their sales from food items, but in India, fresh food is preferred over processed food. The value addition and profits margins on fresh food items are very low as compared to processed food. So even the food retail formats, tend to generate revenues from non-food items. As is the case with Big Bazaar, a hypermarket format but at least 50-60% of revenue is generated through sales of non-food and impulse items.

Speciality formats

- Formats like 'Wedding Malls', stock the complete range of wedding needs from apparel to jewellery.
- Khadi and Village Industries Commission (KVIC) is set to roll out upmarket 'Khadi Plazas', displaying *khadi* products with smartened looks with better appeal to the young consumers.
- 'Village Malls' is the new concept to with the fair price shops being given a face lift to meet the needs of local population in a better manner.
- The concepts like 'Discount malls' are also being experimented.

Reference: www.ibef.org accessed on 29.03.2009.

- **6**. Modern retail formats in India started with apparel and food and grocery retail. The apparel sector in India started with local players. But was given further impetus by Pantaloons, Shoppers' Stop, Westside to name a few. Now, a lot of action is taking place in consumer durables, furniture, home improvement, jewellery and IT products.
- 7. Currently, at least certain pockets of Indian retail market, for example, Gurgaon are facing mall overcapacity. The mall developers are not finding anchor stores. One reason may be that mall developers have not done proper research before planning malls. The malls need to be differentiated to be successful. Here we can take example of discount malls coming up in different parts of the country, wherein every retailer would be a discounter.

It may not be possible for retailers to replicate the most successful formats directly in India as consumer buying behaviour is quite different from other parts of the world.

[Summary]

- ➤ Retail format gives a quick idea to describe strategic mix adopted by the retailer in terms Target Market Segment, Merchandise, Pricing, Communication mix, Location and Customer services.
- ➤ On the basis of target customer segment, retailers are of three types: Mass, Exclusive and Speciality. On the basis of merchandise, the retailers are of two types: General and Speciality.
- Retailers broadly adopt Discount, Competitive and Premium Pricing approaches. For communicating with customers, they generally rely on Mass Media, Direct Mail, Online Advertisement and Personal selling techniques.
- ➤ The store based retailers are located in Strip Shopping Centres, Malls, Central Business Districts or as Stand-Alone. The online, direct marketing and vending machines are major non-Store based options. The service options before retailers are Self-service, Assorted Service and Full Service.
- ➤ For all practical purposes, retail formats are broadly divided into two categories: Food Retailers and Non-Food Retailers. Convenience stores, Supermarkets, Hypermarkets are popular Food Retail Formats. Convenience stores or Kirana Stores are located within or very near to residential areas. Supermarkets and hypermarkets are self-servicing formats. Hypermarkets are characterised by exclusive parking to customers, large in size and offer great variety to customers.
- ➤ Department stores, Speciality stores, Category Killers, Value retailers offer general merchandise. 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 categorised as Multiple line and Single line. Category killer is also a type of speciality retailer which combines advantages of huge selection and low prices. 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 charge annual membership fee from their customers to enable them to make purchases. Small retailers make purchases from these cash-and-carry formats. Airport retailing and railway retailing are new retail concepts built around passenger traffic.
- ➤ Retail Convergence (retailers offering same merchandise, with pricing as the only differentiator), Scramble merchandising (ever increasing variety of merchandise, multiple formats, multi-channel retailing are the changes sweeping across the world today. Retailing is evolving continuously.

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-[Revision Exercises]

■ ■ Very Short Answer Questions

- 1. What is retail format?
- 2. How do the retail formats evolve?
- 3. What is assortment and variety of merchandise?
- 4. Differentiate between mass market and speciality market.
- 5. What are the different levels of customer service?
- 6. What are Full line discount stores?
- 7. What are Single line speciality retailers?
- 8. What is value retailing?
- 9. What is retail convergence?
- 10. What are multiple formats?

Short Answer Questions

- 11. Differentiate between Food retailers and Non-food retailers.
- 12. Differentiate between (i) Supermarkets and Hypermarket and (ii) Off-Price retailers and Warehouse Clubs
- 13. Discuss Category Killers.
- 14. Traditional convenience store retailers will not be able to face onslaught of modern retail". Do you agree with this statement? Discuss.
- 15. "Speciality retail formats are becoming popular in India". Try to identify the reasons behind it.
- 16. Discuss Speciality Retail Format in detail.
- 17. Discuss Department Store retail format in detail.
- 18. Discuss the concept of Cash and Carry Format. How is it different from other retail formats?

Long Answer Questions

- 19. Discuss the characteristics of retailers on the basis of elements of Retail Mix.
- 20. Discuss the main General Merchandise Retail formats.
- 21. Discuss developments in India in context of retail formats.

CHAPTER

4

Multichannel Retailing and Ownership Structures in Retail



After studying this chapter, you should be able to understand the

- ✓ new technology retail formats
- ✓ concept of multichannel retailing
- ✓ concept of online retailing, its main features, issues involved
- ✓ concept of vending machines and kiosks
- ✓ concept of franchising and its benefits
- ✓ types of ownership structures in retailing—single owner, chain stores, lease departments and cooperatives

Fundamentals of Retailing

■●■ Introduction

In the last chapter, we discussed about the retail formats which are primarily store-based, where the interaction of the customer with the retailer is face to face; monetary transactions and delivery of goods is simultaneous.

During the last two decades, the retail landscape has changed a lot. Few examples are: ATMs dispensing cash 24 hours a day, online booking of air and railways tickets, make payment of bills while sitting at home or office during wee hours, machines offering tea and coffee by putting a coin in them, etc. Thus, we can see that retailing is becoming independent of time and place with focus shifting on distribution efficiency. This has been made possible due to technology. This is an becoming an important dimension of retailer's strategy.

In the second part of chapter, classification of retail formats on the basis of ownership structure has been discussed.

■●■ Key Features of New Technology Retail Formats

Few common features of new technology retail formats such as online retailers, kiosks, vending machines, catalogues are given as under:

1. Rich Sensual Impact

New technologies have rich sensual impact on the shoppers. This has resulted in deeper involvement of the shopper during different stages of purchase process. Conventional retail formats such as Kirana Stores, hand pull carts, flea markets have low vividness in comparison to new technologies.

2. More Synchronised Response

The response of system/channel is more synchronised and accurate towards consumer needs. The immediate feedback is important in improving the quality of customer's experience with the retailer.

3. Speed and Pace of Information

Now greater control over speed and sequence of information transfer between marketer and customer is possible. Websites like MyYahoo and MySpace allow greater degree of internal pacing through user customisation.

4. Interactivity

Now, more interactivity is possible between sellers and buyers in new technology formats. The interactivity has two aspects: First, between persons and then between people and machine. The interactivity between persons can be mediated by technology such as telephone, VoIP (Voice over Internet Protocol), mobiles, etc. In interactivity between people and machines, the response is generated by machines. Examples are browsing a website, withdrawal of cash from ATM, etc.

5. Mode of Transfer of Information

Now many options are available before marketers and retailers for transferring of data information:

One to Many It is an impersonal mode that involves the flow of information from the source (marketer) to the customer (receiver), and may be without any feedback. For example, television.

One to One It is the interpersonal communication between two people. For example, telephone, email, etc.

Many to Many It incorporates both personal and impersonal communication, e.g. chatting facility on internet.

One to One and **Many to Many** are potentially more active than One to Many.

It is important to mention that many features of new technology retail formats are present in the store-based retail formats or single channel retailers.

■●■ Multi-channel Retailing

If online retailing, kiosks, catalogues, etc. are used by the retailers in addition to the store-based formats, then the term multi-channel retailing is used. If a retailer is using more than one channel for offering products and services, it is also termed as multi-channel retailing. It has been made possible due to technological innovations.

Wadhawan Food Retail Private Ltd, which also currently operates brick and mortar grocery chains such as Spinach, S*Mart and Sabka Bazar, made forays into multichannel retailing through Sangam Direct, a Home Delivery business, it purchased from Unilever Ltd. in 2007. It has more than 50,000 registered shoppers and merchandise mix of more than 4,000 household products. Futurebazaar.com, an e-retail format started by Future Group to supplement its store-based retail formats is also a good example of multi-channel retailing.

The following are the main retail formats which can be discussed under multi-channel retailing:

- 1. Online Retailing
- 2. Catalogues or Direct Mail
- 3. Vending Machines
- 4. Kiosks

Parameters	Multi-channel Retailing (Online retailers, Catalogues, Vending Machines, Kiosks)	Single-Channel Retailing (Conventional store-based retailing)
Time and Place	Online retailers are independent of time and place for their operations.	Generally operate during fixed hours and at a single place.
Speed	Speed is the hallmark of online retailers especially in online retailing, kiosks, and vending machines. Visiting different websites is easier than visiting physical stores.	Speed of doing business is usually slower in comparison to online retailers.
Catchment area	Usually it is very wide. Technically, a website can be accessed by a person from any part of the world.	Normally catchment area of a store is confined to a specific geographical territory.
Merchandise	Product variety offered is wide as cyberspace is always expandable.	Variety is limited as physical space is always in limited supply.
Cost	There is no need of costly locations to do business, but advertisement cost, supply chain cost, etc. can be limiting factors.	Rental cost is usually substantial.

Exhibit 4.1 Differences between Multiple Channel and Single Channel Retailing

Online Retailing

Internet has become the most powerful tool of communication during recent times. With digitalisation of economy, it has changed the whole way of doing business to such an extent that the organisations are building up their business strategies around internet. It is in this context that the term e-commerce became popular. Though history of development of internet spans over two decades, yet, specifically e-business and e-retailing became vogue during 1990's:

Mid-Nineties This period can be specified as the period between 1994 and 1997. During this phase, many organisations were looking for online presence.

Late Nineties This can be specified as the period between years 1997 and 2000. During this period, organisations were looking for some business opportunity out of internet and generate some revenues by redefining the old business models.

2000 Onwards The 21st century began with gallopping dotcom companies and with that multi-channel retailers looked forward to generate significant sales volumes.

Different categories which are being traded across electronic channels are music, computers and various accessories, software, cosmetics, toys. Fabmart.com, ebayIndia.com, rediff.com, Indiaplaza.com and futurebazaar.com are few Indian examples. As of now, 40% of the online customers are from tier II and tier III cities. Frequency of the buying is also on the rise.

To promote online retailing, banner advertisements, crawlers, browser buttons, URL links can be placed on non-competing sites. It offers scope for selling complimentary goods also.

As of now, most of the online transactions may be relating to the standardised products, but with building up of trust and confidence, these transactions can move towards more specialised products. There is a great scope for niche retailing.

Online retailing is currently used for airline ticketing, packaged tours, hotel reservations, videos, accessories, shoes, music (downloads), computer hardware, and software, cosmetics, toys and groceries. Most successful e-retailer in India is Indian Railways. GPRS enabled m-commerce is next big thing in e-retailing.

Online retailing has many dimensions such as business to business (B2B), business to commerce (B2C), customers to customer (C2C) alongwith concepts like e-payments, e-procurement, e-supply, e-retailing to name a few. Out of all these concepts related to digitalisation of economy, e-retailing has the most visible and direct impact on society through its consumers. Other term used online retailing is virtual retailing.

Key Enablers of Online Retailing The amounts of consumer spend through e-retailing has shown steady trend during last few years. The key enablers are given as under:

Increase in PC Penetration India is comparatively a young nation with more than 50% of population with a median age of 25 years. Young customers are internet savvy and access it on regular basis. Battle among online retailers is for mind-share of consumers.

Proliferation of Payment Options Growth usage of credit cards, cheques, cash on deliveries has prompted customers even with low payment capacity to opt for online shopping experience.

Saves Time and Efforts Now the customers are Money-Rich but Time-Poor. Ease of buying by spending little time is the prime factor prompting buyers to purchase online. It is a much better option in case of routine purchases.

Convenience of Shopping at Home In addition to convenience, online retailing makes products available at places where it is not available otherwise. It is time independent. Customers can access merchandise $24 \times 7 \times 365$.

More Variety of Merchandise Though optimum utilisation of space is an issue in online retailing, but as such it does not face space constraints like physical stores. So, more choices can be actually offered to customers. Indiaplaza is carrying over thousands of SKUs spread over 27-28 of product categories.

More Economical Prices Online retailers tend to ensure that products are available at prices lower than that of market.

More Detailed Information about the Product Though human interface and spontaneous response to customer queries are not there in cyberspace, yet more detailed and accurate information about the products is found on the online stores.

Better Comparison of Brands and Products Websites such as www.amazon.com makes process of comparing, buying and receiving books interesting, convenient and easy to use.

Issues Before Online Retailers Actual test for the success of the retailer lies in delivering goods at right time, in right quantity and at right place. There are numerous examples in the brief history of online retailers where customers had been at the receiving end and suffered financial losses.

Given high real estate prices, online retailing has good scope, but then supply chain is an issue. Some of the important issues linked with the e-retailers are given as under:

- Building Trust Customers still look for 'touch and feel' experience.
- *Privacy Issues* Breach of privacy and the internet frauds during e-transactions have become the real concern of retailers.
- Supply Chain Capabilities and Safe Delivery of Products Success of online retailing needs wide networking, supply chain capabilities over wide catchment areas, covering different geographies. Nations usually have different taxation and trade laws. Here, 3PL and 4PL service providers play an instrumental role in online retailing.

Many online retailers use business model which enter into partnerships with local product manufacturers and marketers which facilitates procurement and distribution. The online retailers are able to make profits through these partnerships only.

• Competition and Profitability Competition is with online retailers as well as with store retailers. It seems that online retailers have low cost and should start making profits immediately, but the real challenge before many online retailers in many markets such as India is to change the purchasing habits of the customers for whom the touch and feel experience is still very important. In India, shopping is like an experience which people like to gain. Participation of all members is still a far cry in case of online retailing.

Given high real estate prices, e-retailing has good scope, but then supply chain is an issue. eBay uses business model which makes local producers and marketers supply their products across the country. Right now, most of the transactions can be relating to the standardised products but with building up of trust and confidence, they can move up for more specialised products.

Mail Catalogues

These are also termed as Direct Mail. They have a long history behind them. Whether print mails or e-mails, they have become very popular media option, especially in a situation when the focus of retailers has shifted from mass communication to the customised one so as to build up relationship with the customers.

The financial service sector has become the prolific user of this medium.

It offers the following advantages:

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 - It goes directly to a person for whom it is actually meant.
 - Imparts personal touch to the message, the advertising message does not have to fight with other media channels.
 - More elaborate description of the product is possible.
 - It fills the gaps in sales efforts. Though initial cost of contacting can be higher, but once some order is completed, the later contacts can be maintained at a lower cost.

But it is not free from weaknesses:

- It has limited access.
- Developing database and its updating also demand continuous efforts. There can be problem in finding a suitable direct mailing agency which can handle all the aspects of direct mail in a professional manner.

A good example of catalogue retail in India is Hypercity-Argos brand promoted by Gateway Multichannel Retail (India) Ltd which is a joint venture of Hypercity Retail (India) Ltd and Shopper's Stop Ltd.

Vending Machines

Vending is a step forward in retail formats which are independent of time and to some extent distance independent also. It is a retail format that dispenses products—goods and services through machines by making use of independent cards or currency. The goods can be food snacks, beverages and services such as Automated Teller Machines (ATMs).

The machines are placed at convenient places—in busy market places, bus stands, railway stations, airports, in big commercial establishments such as factories, office buildings, schools and colleges. The coin operated weighing machines at bus stands and railway stations can be cited as the earliest examples of vending machines in India. Mumbai-based Chevend Technologies is the pioneer in devising machine dispensing snacks, cold drinks, etc. Nestle, Hindustan Unilever, Cadbury's, Brooke Bond are few of the many companies using the concept of vending machines. Malayalam Manorama group also ventured into it, with machines dispensing 'The Week' at major airports in India.

There is generally no salesperson to operate these machines. These machines have microprocessors and thus, its functionality can be programmed as per the needs of the retailers. The microprocessors can be programmed to keep record of sales, consumer preferences; any malfunctioning can also be displayed. Innovation in technology may witness that vending machines can also be operated with the help of mobile phones just through sending SMS.

The vending machines have the following advantages:

Better Product Visibility and Brand Image The vending machines not only generate revenues but function as marketing tools also.

Better Distribution and Market Penetration It takes merchandise and service right to the place where it is actually needed and consumed by the customer. So it is an excellent distribution strategy especially for the brand manufacturers of fast moving consumer goods. It results in better market penetration.

Hygienic As the product is directly dispensed by the machines, it is more hygienic in comparison to other places.

Impulse Sales Well placed and attractively designed machines prompt customers to make purchases when it may not be actually needed.

Cost Effective As the vending machines are usually unmanned and operate round the clock, it makes optimum utilisation of available time and money resources.

The retailers should take care of following aspects while making decision about vending machines:

- 1. It should support overall retail strategy.
- 2. The machines should be strategically placed so as to project a brand image.
- 3. The choice of vendor should be proper, customisation is very important. The vendor should have the network to provide after sales service. This is especially true in case of service products such as bank ATMs.
- 4. If possible, the customer care executive should be placed near the machines so that they can guide the customers to operate the machines. The person should be properly trained.

Retailing Kiosks

The concept of kiosk became important in 1990's and also still gaining importance in India. According to Devangshu Dutta, Third Eyesight, "Kiosk retail can be defined by the presence of outlets with a small physical space in an open format with 'temporary' or even mobile outlets, but may be stationed at a place for a long time. The structure of kiosk could be designed as a standalone structure like a terminal, or a semi enclosed booth." Generally, merchandise items or services sold through the kiosks has the following features:

- These do not require much space and can be sold through kiosks.
- These do not require any or much preparation.
- These can be served with any minimal staff
- These are consumed in a routine manner, but few retailers deal in specialty products also.

Kiosks are specifically useful for food snacks, flowers, books and music, financial products, simple medical check-ups, etc.

Currently kiosks deal with low value merchandise items, but in future the high value items may also be sold through kiosks as customers become comfortable with the use of kiosks. Conventionally, the kiosks are known as box like structures, where inexpensive merchandise is sold, but now it has evolved into trendy structures with numerous designs, shapes and colours. Kiosks are generally placed in shopping malls, supermarkets and hypermarkets, airports, railway stations, bus stands, educational institutions, exhibitions, etc. or any high visibility area. They especially target customers who are on the move, keeping in view the fact that mobility of population, especially due to working women, has increased during recent times. Generally, kiosks offer the following benefits:

- 1. These have low inventory costs, but replenishment should be efficient.
- 2. The retailers can promote their products through kiosks as these are generally located at main aisles of the malls or corridors of shopping centres.
- 3. These bring incremental sales for the retailers through impulse sales.
- 4. These generally enjoy symbiotic relationships with the malls, help increase footfalls, and hence, are beneficial for both parties. These fulfil objectives of tenant mix.
- 5. They help in reducing staff costs.
- 6. They offer direct mode of communication with the customer.
- 7. They help in better penetration of markets, swift rollouts, thus supplementing efforts of big retail formats.

Various examples of kiosk retailing in India are fruit juice brand, Mr Orange from MX Foods, Candico India, Boosts, Yo! China, Coffee Day Express and Kaya Skin Clinic, to name a few. Among the service retailers ICICI bank, Citi Financial and Reliance Money. Reliance Money has opened more than one kiosks.

e-Kiosks Now with the advent of new technologies, the variant of kiosks in the form of e-kiosks has emerged and accessing information has become much easier with the help of kiosks. Now information solutions are available at the press of a button at touchscreen kiosks. These provide details of a product or service in the most dynamic and delightful manner through multimedia, eye-catching animations, attractive screen and contents.

Shopping through the Dish—*The next retail wave is here...thanks to technology*

As a child one wanted to buy a Cadbury's chocolate bar right when it was being advertised on television. Today with technological advancements, it may actually be possible to do so.

What if you could buy advertised products through your television remote and a direct-to-home (DTH) service provider such as Tata Sky or Dish TV?

Currently, there are two ways one can shop from home—either through the internet or by placing orders for TV-advertised products via post or phone. Channels would sell items that were then bought by calling the numbers displayed on screen and paid for either by VPP or cash on delivery. However, with TV emerging as the number one source of entertainment and with the emergence of new technology, the next round of integration is just a step away.

Shopping on DTH: How does it work? DTH encompasses services including pay-per-view, on-demand viewing and interactive features. The interactive services support the possibility of developing shopping carts for individuals. Based on the kinds of products on sale, one can categorise them into groups such as grocery, personal care, food and beverages, music, etc.

The TV remote control can be enabled for use as a tool to navigate and select required products through the interactive screen. A final list of products along with individual prices can be displayed and payments can be effected through credit/ debit card gateways routed through the DTH provider.

Unlike the internet, secure transaction can be guaranteed as DTH in general is available in encrypted form for every user. Plus, each channel is beamed directly from the satellite to the receptor dish in one's home. As the signals are strong with clear quality, there is no scope for data loss during transmission of one's credit card details. However, there are some challenges to be overcome for this model to be implemented. These include—Real time interaction and updates (with retail chain inventories, tickets), providing encryption for payments, delivery and logistics

The best way to mitigate these challenges is to collaborate with organisations already providing these services. For airline tickets, companies like Yatra.com or makemytrip.com can be partners. For retail chains, it will lead to sharing of their real time inventory management systems. What DTH players have to realise is that they do not have to provide any of the physical services themselves. They would merely provide a gateway to these services via the dish.

Win-Win situation: The organisations providing the products on sale would benefit, as would banks and credit card companies. But, undoubtedly, the real beneficiary would be the customer and a DTH provider for whom this service would be a new revenue stream.

Customers: A customer can shop sitting in the comfort of his house, thereby saving valuable time and effort. Also things would be much cheaper when sold through this medium, as retailers would not have to stock items and display them in the retail format. Instead, they would be stocked in a warehouse or in some cases purchased only after the order has been placed. The savings in cost can be passed on to the customer in order to encourage him to shop on the DTH.

Retail chains: Retail chains can save critical retail space for items that cannot be bought over DTH such as fresh fruits and vegetables or clothes. Additionally, their cost of merchandising is much lower. Customers would pay for the purchase before delivery and retailers can keep their cash flows flexible.

The computer and internet still have low penetration in India. But television is a medium most consumers are comfortable with. Also, the reach of DTH is expected to far exceed that of the internet coverage in the country. Hence, it would be a better bet to go shopping on the dish for all the stakeholders.

Reference: Business Line, Thursday, April 24, 2008

■●■ Classification of Retailers on the Basis of Ownership Structure

There are many ownership structures in the retail business which have evolved over a period of time.

Independent Single Store Ownership Structure

Under this ownership structure an individual or corporate entity owns and operates a single retail outlet. These stores are operated in an independent manner. There can be few local branches, but are owner-managed. They may employ certain workers as well for assistance. Single ownership of retail outlets most frequently occurs with small retail stores, though there are some cases, for instance in the automotive or furniture industries, where single ownership involves very large outlets.

In India, 96% of the retail outlets are less than 500 sq ft in area. Almost all of these are owned and operated independently. In India, there are 12 million small and medium retail outlets and majority of these are independent single store owners. The owner operators have a strong entrepreneurial zeal, but sometimes this becomes disguised form of employment when the employment opportunities are low in economy and people seek self-employment through this mode. This is specifically true in case of India.

Main Features

- 1. *High Numbers* These outlets are dotting the whole landscape of the country. In comparison to chain stores, the number of the independent stores is very high but their proportion in total retail sales is low. In India, convenience stores, variety stores, Kirana, mom and pop all fall under this category of ownership.
- 2. Low Capital Base The independent stores can be started with a very low capital and there are less licensing and other legal formalities to comply with, the entry barrier is quite low. So the number of people starting as independent retailers is very high and the competition is intense. Thus, ease of entry is one of the reasons for high failure rate among independent single store owners.
- 3. Higher Flexibility The independents enjoy greater flexibility as far as retail mix such as location, merchandise, services and pricing policies are concerned. Decision making is centralised and the number of managerial layers is minimum. These organisations can maintain better consistency in their store practices and pricing policies as only one unit is to be operated. They have personal appeal to their target market segment. They can become specialists for their target market over a period of time. Thus they are better suited for niche retailing.
- 4. Low Volume Business The independent retailers generally do not enjoy much leverage against their vendors as they normally buy in small quantities. They do not enjoy economies of scale as their clientele is limited. At the same time, they may not enjoy economy of scope as normally these stores are smaller and their shelf space is also limited. Barring few exceptions, these retailers can not afford to the state of art technology, so their efficiency is lower in comparison to other kinds of retailers. These owner retailers are overly dependent upon the owner. The owner manager is mostly busy with routine operations, thus he generally lack long range planning.

In India, the independent business owners are feeling threatened by big format chain stores. At many places, they are collaborating with each other. This is done by joining a retail-sponsored cooperative group or wholesale-sponsored voluntary chain which go for centralised purchasing and negotiate better pricing with vendors. Thus, they can compete better. On the other hand, local retailers offering complementary merchandise and services can also be very successful. Often, all stores in a chain have the same merchandise and services, while local retailers can offer merchandise compatible with local market needs.

Corporate Chain Stores

It is basically "corporatisation of retail" though there may be few examples when single store being operated as a company. Usually Retail companies operate multiple stores.

- A retail chain consists of multiple retail outlets owned and operated under common ownership.
- It usually offers the same assortment of merchandise across different stores.
- Its store operations and retail practices are standardised across stores.
- It usually has centralised purchasing, at least purchase policies will be uniform.

Relative strength of chain store retailing is higher, even though the number of retail chain is low. This is due to the fact that every chain store has at least few stores under its ownership and on an average each chain store outlet is bigger in size as compared to independent single store ownership. The amount of purchase per customer is also high. Chain stores are able to attract proportionately more number of customers and are able to generate high volume of sales.

In USA, the retail chains are specifically dominant in categories such as food and grocery, general merchandise, drugs, apparels, etc. The chains enjoy high bargaining power due to the volume of purchases and geographic reach. In case of international store chains, the purchasing is done from vendors of the country of their operations to sell elsewhere in the world. This is the case with Wal-Mart, Carrefour, Costco, JC Penney.

In India, there are many retail chains promoted by Future Group, Reliance, Subhiksha, Aditya Birla Group, Spencer. Many of them have come out with public issues or initial public offerings in the market such as Future Group. Reliance Retail is in fact a subsidiary of Reliance Industries. Reliance Retail itself has launched many retail formats in independent manner which may be hived off as independent entities in the near future.

This kind of leverage is not available to independent single stores. Thus, store chains can compete better. The chain stores generally get preference for the launch of new products and promotional support by the manufactuurers. As their operations are normally centralised and can afford technology for customer database, merchandising, category management and inventory management, the store chains are more efficient in comparison to independent retailers. They can afford mass media as a part of communication mix. With dedicated supply chain across different locations, the viability of private labels is better in case of store chains. The chain stores operate through various retail formats like supermarkets, hypermarkets, specialty stores, discount stores, etc. Future Group forayed into chain of convenience stores under brand of KB's Fair Price Shop.

Franchising

Franchising refers to the business relationship between two organisations where a franchisor, who is the owner of a brand name, product or system of a business, permits a franchisee to use its brand, product or business process in lieu of certain returns. It is a retail ownership structure in which operators of the retail outlet are not the out-right owners of the business. Franchisees are motivated to make the business venture a success because the profit after paying the franchisor's charges belongs to them.

- At a more basic level, franchising is a marketing and distribution method, and Franchisor's organisations use franchising as a method of rapid growth and expansion and at a low capital cost.
- The goal of a franchisor is to replicate a consistent product offering and shopping experience across different locations through franchisees.
- Additionally, franchising allows the franchisor to have greater access to capital, save operating costs and capitalise on the abilities of independent entrepreneurs.

Many Indian retail organisations are taking this route as an alternative to solve talent crunch and enhance capabilities. There can be many modes of franchising business given as under:

- 1. Franchisee Owned and Franchisee Operated (FOFO)
- 2. Franchisee Owned and Company Operated (FOCO)

Vishal retail has big plans for FOFO model. There can be other options also depending upon the viability and mutually agreed upon terms and conditions.

Benefits to the Franchisee Since franchise is a business which authorises the franchisee to sell or distribute a franchisor's products in a specific geographic location, the franchisee receives the following benefits:

- 1. Benefits from the Experience of Others In franchising, the franchisee benefits from the work and experience of others who have invested thousands of hours creating a successful business. As an entrepreneur when a person starts a business from scratch, he can guess the difficulties ahead, but with a franchise opportunity, many of the common roadblocks are overcome in a routine manner. A franchise business is a business "For yourself, Not by yourself". The learning curve of the franchisee can shorten and cost incurred in the form of experimentation can be saved.
- 2. Participation in Training Programmes Participation in the training programme from the masters of the business category is spontaneous and will continue till the franchisee is comfortable and adept with the business practices in book keeping, inventory management, people management and distribution of product or service and many other activities. The franchisor's organisation wants the franchisee to succeed as they see their own success in the franchisee's success. The staff of the franchisee can also get support in the form of training and development.
- 3. Marketing Support The marketing and promotional support is another important advantage accrued to the franchisee. As a franchisee, one does not need to be a marketing expert. A part of the fees paid to the franchisor go towards marketing efforts. The franchisors benefit from the marketing programme of the franchisee.

The franchisee actually gets benefitted from the well-established brand names of the franchisors such as McDonald's. The franchisee gets association with proven brand. But, many small franchisors can prove to be good brand names in the long run. Success depends upon the business model of the franchisor.

4. Satisfaction of Owning a Business Venture Sometimes satisfaction associated with owning and operating your own venture supersedes the other positive aspects of retail business. Franchisees view themselves as independent business people and see their relationship with the franchisor as one between two business partners. The franchising ownership format attempts to combine advantages of owner-managed businesses with efficiencies of centralised decision making in chain store operations.

Indian Scenario In India, there are 600 franchisors in association with over 40,000 franchisee, with an annual turnover between Rs 8000-10,000 crores from franchising. Over 300,000 people are directly employed by franchised businesses as per annual survey conducted by First Franchising. Currently, education sector dominates the Indian franchising scenario, although retail is catching it up fast.

In USA, there are around 3,000 franchises doing business with 3,20,000 franchisees. The total number of retail outlets operating under the franchising arrangement is more than 7,50,000. Sometimes, the franchise can start a store chain for offering the product or service. Thus, in comparison to USA, the sale through franchising as a percentage of total retail sales in India is quite low and hence, a lot of opportunity is there.

The following information from different product categories will give idea of the franchising becoming popular in the Indian scenario.

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Name of Company	Total Stores	Franchised Stores	Company Owned
Levi's	400	340	60
Welspun	220	110	110
Samsonite	220	167	50 +
Vishal Retail	140	3	137
Spencer's	400	0	400
Kouton's	1500	1350 +	120
Liberty	400	340	60
Gitanjali	4000	1000	3000

Reference: Retailer, November 7, 2008 issue, www.indiaretailing.com visited on April 30, 2009, www.retailnu. wordpress.com visited on February 28, 2009

Exhibit 4.3

Generally, one can say that currently the franchise mode is not very popular in food and grocery categories.

Certain Requisites for the Success of Franchising Business There are certain requisites to develop the franchising business.

- Franchisor's organisation is required to develop systems, structures, and processes for the joint business venture.
- It also devises some control mechanism for the performance of franchisee's organisation.
- As a business method, it is more suited to generic product offering that is built around a well-established brand, a basic standardized procedure.
- It must be capable of delivering a consistent product or service or both through a wide network of operational units.
- Both parties have to work in unison to deliver the expected customer value.
- There is a need for a regulatory body on franchising to identify correct priorities for both franchisors and franchisees. There should be transparent disclosure norms and legal frameworks on the regulatory side, and both franchisors as well as franchisees need to understand and honour their commitments as well as responsibilities towards each other. This can be done on the lines with regulations by Federal Trade Commission as in USA. This is important for healthy growth and development of franchising in India.

Leased Stores/Departments

Sometimes, big departmental stores give space on lease to some other retailers which sell complimentary goods. The mall developers also give space to different retailers on lease rent as a part of their strategy to manage tenant mix. Like in a store, there can be different departments in the store such as apparel, toys, jewellery, footwear, etc. Generally, the food courts are given to third parties.

Now, the concept of anchor store is also becoming very popular as a method to build traffic in the mall or store locations. The 'shop in shop' concept is also linked with it as both the main store and leased store enter into symbiotic relationship with one another. Retailers can give some fixed rental or some percentage of sales or both to the leased stores/departments.

The advantages to the regular or main store retailer are given as under:

- 1. One-stop shopping experience can be offered to the customers.
- 2. Main store operations relating to leased product category are carried out by the lessee.
- 3. Some expenses are shared, so the cost efficiency of the regular retailer increases.

The advantages to the lessee are as follows:

- 1. The lessee retailer gets some traffic of the regular retailer, so survival is supported.
- 2. Cost effective as certain overhead costs are shared.
- 3. The association with a well-established store brand is helpful.

Consumer Cooperatives

The consumer cooperatives are managed by the cooperative societies. They have played a very important role in the providing products to the consumers at competitive prices. However, lack of commercial aspect has a bearing on the future plans of these societies which actually hampers their growth. A good example is the Kendriya Bhandar, promoted by Central Government Employees Consumer Cooperative Society. The cooperative societies provide following advantages to the consumers:

- 1. They provide goods at competitive prices and their quality is reasonably good.
- 2. They provide personally gratifying shopping experience to the consumers.
- 3. The members may also get benefit of sales promotion schemes and gifts on special occasions.

■●■ Classification of Retail Formats on the Basis of Brand Availability

In addition to the above classifications, the retail formats are categorised on the basis of brands also. This type of classification is quite popular. The retail outlets are categorised as **Multiple Brand Outlets** (MBOs) and **Exclusive Brand Outlets** (EBOs).

As the name indicates, the MBOs stock brands of different categories such as mobile store. Cosmetics brands are available at MBOs. They offer the benefits of choice, affordability to the customers. For retailers, they bring in more footfalls.

On the other hand, the EBOs deal with a single brand and offer the benefits of brand experience in an ambient atmosphere. Examples are EBOs by Samsonite, Sony, etc.

The following points will make the difference clear between MBOs and EBOs.

EBOs
Exclusivity is the main theme
EBOs are easy to manage
High Investment required to create ambiance
The entire range of the brand manufacturer is displayed

Reference: Retailer, January 15, 2009, p. 52

Exhibit 4.4

In the end, we can also say that there are so many categorisation of the retail businesses. There can be so much overlapping in the classification. Such as EBOs can be single or part of store chains.



> During last few years, the landscape of retail has been dotted with new technology formats which offers rich sensual experience, more synchronised response, speed and interactivity to the prospective buyers.

Fundamentals of Retailing

- ➤ With the advent of adoption of new technology in the retailing, the multichannel retailing is becoming popular among retailers. The retailers may actually use more than one retail format to reach out to their customers. The online retailers, catalogues, vending machines and kiosks are the main retailing formats to be described under the multi-channel retailing.
- ➤ The key enablers of online retailing are increase in PC penetration, proliferation of payment options, saving of time and efforts, convenience, more variety, detailed information about products and services and better comparison of prices. Building trust, developing supply chain capabilities and intense competition are the main issues before the online retailers.
- ➤ Kiosks, another type of multi-channel retailer, are getting popular for retailing product categories such food snacks, books, music, etc. These can be run economically as these need less space, need less investment and have little staffing requirements. They help in better market penetration and an effective method of advertisement.
- ➤ Vending machines are independent of time and place. These generally do not require any salesperson to operate the format. These have better product visibility, helps in better market penetration, help in generating impulse sales.
- ➤ The retail organisations on the basis of ownership structure can be categorised as independent single store ownership stores, corporate chain stores, franchising, leased departments and consumer cooperatives.
- The most prominent among single Stores are Kirana stores or neighbourhood stores. These are numerous, usually small in size, have low volume of business. These are suited for niche retailing.
- ➤ The corporate chains are outcome of "Corporatisation of Retail". These can be run in a more professional manner across different geographic locations.
- Franchising is the arrangement between the franchisor (owner of brand) and franchisee is user of that brand name, product, service or process. The franchisee gets benefit of name, marketing support, training, etc. The franchisor gets the fee or royalty in lieu of these benefits and services.
- ➤ In leased department arrangement, the owner or occupant of the retail premise give the space within premises on rent to a retailer on lease rental basis, sales commission or profit sharing basis.

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-[Revision Exercises]

■ ■ Very Short Answer Questions

- 1. What is multi-channel retailing?
- 2. What is the difference between a franchisor and a franchisee?
- 3. What is online retailing?
- 4. When it is said that a particular retail format is time and place independent, what does it mean?
- 5. What is the difference between store-based and non-store-based retail formats?
- 6. How the online retailers are able to offer a large number of stock keeping units?
- 7. How can the supply chain incapabilities impact the online retail business?
- 8. What is direct mail?

Short Answer Questions

- 9. Enlist the main features of new technology retail formats.
- 10. What are the main differences between the multi-channel retailing and single channel retailing?
- 11. What are main issues before online retailers?
- 12. What are cooperative stores? What kind of future do they have in current Indian retail scenario?
- 13. Comment upon the future of online retailing in India?

Long Answer Questions

- 14. Discuss the concept of vending machines in detail.
- 15. What are kiosks? How can they help the retailer in better brand building?
- 16. What are the leased departments? How do they help both the parties?
- 17. Discuss various aspects related to franchising in detail?
- 18. What are the main features of independent single store ownership structure? How have they been able to face the onslaught of big retail formats?

Project Assignment]

Many of the retail chain stores in food and grocery category are fighting a battle for their survival. Try to identify such stores by conducting a survey in your neighbourhood area and give reasons for their weak bottom-lines.

CHAPTER

5

Customer Buying Behaviour and Retail Strategies





After studying this chapter you should be able to understand

- ✓ the concept of buying as a need fulfillment/problem solving exercise
- ✓ consumer buying as a process
- ✓ the factors affecting buying behaviour such as psychological, demographic, socio-cultural and personal
- ✓ the concept of market segmentation
- ✓ retail strategies, building up a sustainable competitive advantage and core competence
- ✓ the process of strategic retail planning
- ✓ the main strategies adopted by retailers, internationalisation as a strategy

■●■ Introduction

Consider the following news headlines relating to retailing across different media channels:

- Survey: Customers fleeing unclean stores
- One fifth of retail sales is through internet
- Study: Multi-channel customers are more loyal, spend more
- Discount stores show double digit growth

An analysis of these headlines will show that all these developments reflect of our behaviour as consumers. Everyone among us is a consumer. All of us buy products according to our needs and preferences, and as per our purchasing power. Products can be FMCGs, consumer durables or speciality goods. What do we buy, why do we buy, how do we buy, when do we buy, and from where do we buy, are some questions which we have to ponder over as customers. Products are bought individually or in groups; sometimes in urgent situations to satisfy an immediate need; sometimes for comfort and luxury; sometimes in small quantities; and sometimes in bulk. There is numerous options available to a customer to satisfy needs and hence, our final purchase decision depend upon our life experiences, perception, self concept, attitude, value system, socio-cultural background, stage in the lifecycle, motivation, personality and many other environmental factors.

Study of Consumer Buying Behaviour is an art and science of knowing needs and wants of consumers, and developing an understanding how prospective buyers decide to spend their resources like time, money and efforts during different stages of buying process. In a more systematic manner, study of consumer behaviour entails:

- Identification of underlying mechanism in decision making process;
- Identification of factors influencing the decision making;
- Understanding of ever changing retail environment.

With each person being unique and each purchase decision being tagged with the psychology of the purchaser, it becomes a complicated task to understand the purchase decision variables. It is also important to differentiate between a consumer and a retail customer. A consumer is one who actually acquires, uses and can evaluate goods and services. A retail customer is one, who actually buys goods or services from a retailer or any other seller. A person can be acting as a customer as well as a consumer.

Determining the dynamics of consumer behaviour is the most challenging task for any marketer. It is, especially, important for retailers to develop in-depth consumer insight as they are in direct contact with customers. It is, sometimes, termed as "**Know Your Customer**" approach. It is the precise reason that one can find top executives of big retailers such as Future Group, tend to spend at least some of their precious time in stores. They watch activities of customers, interact with them and talk to store staff to get first hand information about buyer behaviour. The international store chains usually prefer to undertake some customer research before giving final shape to their plan.

■●■ Key Features of Buying Behaviour of Indian Consumers

Shopping behaviour of consumers in India is quite different from their counterparts elsewhere in the world in more than one way. Treating them as a single homogeneous market can be fatal for big retailers and describing shopping behaviour of such a big and diverse market is a real challenge. An attempt has been made to identify the key features of an average Indian consumer to help students develop better understanding of the buying behaviour. These have been discussed as under:

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 - Indian consumers have a high degree of value orientation. They have been labelled as one of the most discerning consumers in the world. Even luxury and lifestyle brand retailers have to design a unique pricing strategy in order to penetrate the Indian consumer market.
 - Indian consumers have a higher degree of family orientation. This orientation, in fact, is applicable
 to the members of extended family and friends as well. Stores, products and brands which support
 family values, communicate feelings and emotions in their messages have better chances of success
 in India.
 - As per one survey, Indian consumers are not very loyal to any particular store. Almost 60% of consumers buy from multiple retailers in comparison to 10% in Brazil and 24% in China.
 - Indian consumers attach lot of importance to freshness in food items. Only 35% of prospective buyers may actually be willing to purchase packed food items in India in comparison to 76% in China and 94% in USA. Many Indian consumers associate packaged food with staleness.
 - Indian shoppers give a lot of importance to convenience. Around 64% buyers do not mind paying extra money for conveniently located stores, compared with 31% in China.
 - 64% of Indian buyers prefer spending less than 15 minutes time to travel. In Brazil it is 78% and 69% in China and Russia both.
 - Role of traditions in shaping the consumer behaviour is quite unique in India. So, one can see traditional products being sold alongside modern products. For example, hair oils and tooth powder existing with shampoos and toothpaste. More than 75% women's clothing and 85% jewellery sold in India are traditional in style and design.
 - Almost two fifth of shoppers in India buy clothes for special occasions, whereas only a small percentage of Chinese and Russians are driven by occasions for their apparel purchase.
 - Indian shoppers are quite flexible in branding as long as food items are concerned. 57% of respondents said buying a well-known brand of shampoo was important, while as many as 49% may settle for lesser-known brands. On the other hand, almost 85% shoppers prefer purchasing a reputed brand in case of electronic goods.
 - Though India is considered to be a traditional society and most of the decisions are taken collectively by the family members or by a group of friends, 'Individualism' as value has made in roads among Indian youth.
 - Purchasing on loan is still a taboo for many Indians, but now a considerable percentage of customers
 are ready to purchase goods on credit in India but availability is not easy to come by. Among this
 category of customers which are open to credit purchases, the highest percentage is from the group
 less than 25 years of age.
 - Indian consumers have perception that prices at exclusive brand outlets (EBOs) are high. Further,
 it may depend upon product category. For example, consumers prefer visit EBOs to purchase
 apparel, electronic items but may not show the same flexibility to purchase jewellery at brand
 outlets and prefer visiting conventional jewellers. Now, branded jewellery has been able to change
 perceptions through advertisements to some extent, especially among youth.

As business environment itself, is very dynamic, consequent behaviour of the same consumer may vary at different time such as during recession, it will be different from that of boom period.

Apart from Indian, one example of changes in consumer market can be cited from Western markets. During 1990's when many developed and emerging economies were facing slowdown, customers were reluctant to purchase costly big diamonds. As a result, there was spurt in demand of small diamonds. Exports of small diamonds from India increased manifold as cutting of small diamonds is labour intensive and India has expertise in that.

■●■ Need of Studying Consumer Behaviour

When everything revolves around the customer, then the study of consumer behaviour becomes imperative. It is never an easy task to generalise consumer behaviour. It varies across different product categories, channels and stores. So, it is worth spending money to develop better understanding about it. It can help in avoiding many costly mistakes.

Studying consumer behaviour becomes more challenging as purchasing is becoming increasingly experience-oriented. Now customers expect better purchasing experience in the form of merchandising, store atmospherics, visual merchandising. They look for Extended Product i.e. Merchandise plus Services. It is important for a retailer to know that:

- What the consumer thinks of the retailer's products offering and those of its competitors?
- How can the store's offering and shopping experience can be improved in their opinion?
- What is the customer's response towards retailer's sales promotions and advertising?

A proper research is required by retailers to find ways to enhance overall purchase experience. With increasing diversity and fragmentation of consumer market and proliferation of consumer segments, it has become essential for retailers to read the consumer's mind so that they can offer better value to their consumers.

- It guides retailers to decide about retail Mix-Product, Price, Place and Promotion. It also gives competitive edge to the retailers by adopting proactive approach instead of reactive towards meeting demands of customers, thus it helps in optimum utilization of resources.
- Consumer behaviour covers certain issues regarding selection of retail outlet and brand which are
 important for the retailer to know. Usually, both retail outlet and brand come for active consideration
 almost simultaneously. So with this kind of insight the retailer can decide about promotional efforts,
 from where and how to start.
- It helps retailers to take decision about private labels—Will consumers prefer private labels? Traditionally, retailers stock manufacturer brands, but retailers like Big Bazaar, 'more', Reliance, Nilgiri have been stocking their private brands.
- Multichannel retailing has added another dimension to consumer buying behaviour, it may vary from one channel to another. So it has become pertinent for multichannel retailers to understand the underlying processes of buying behaviour.
- In case of services, study of consumer behaviour is even more crucial as services are intangible and value should be inbuilt at the first place in the delivery process itself from the very beginning.

Now, with the help of technologies such as Radio Frequency Identification Device (RFID), Data Warehousing and Mining, retailers can regularly generate data and modify their response to the changes in consumer behaviour and thus, can stay connected with the consumers more effectively.

■●■ Types of Purchase Decisions

The purchase decisions can be divided into four categories on the basis of purchase frequency and money involved.

Determining whether a decision is major or minor is relative in many situations. For example, a person, who is tech savvy and regular purchaser of gadgets, purchase of a laptop may be a routine decision for him, but for someone else, it can be an uphill task—specifying requirements, deciding about brand, after sales service issues, etc.

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Type of Purchase	Minor Purchase	Major Purchase
	Minor New Purchase Decision Low/moderately priced merchandise, not very important for customer Limited information search Limited decision making, impulse buying Limited risk and limited involvement Unfamiliar brand in a familiar product category E.g.: Beauty product, small gift item, apparel	 Major New Purchase Decision Extensive information search from friends, relatives, store staff Extensive decision making High risk and involvement Unfamiliar brand in an unfamiliar category E.g.: Purchase of house, consumer durables, education
	 Minor Repurchase Decision Very low information search Development of brand loyalty High frequency of purchase No risk Programmed/spontaneous purchase decision E.g.: Food and grocery 	 Major Repurchase Decision Limited search but evaluation of alternative product or brand Low frequency of purchase More confidence in decision making E.g.: Purchase of motor-bike, car

Exhibit 5.1

Similarly, for a person who has never gone out of town, the decision about staying in a hotel outside the town can involve extensive information search and thus can be a major decision, but for someone else whose job entails a lot of travelling, the decision can be almost automatic.

■●■ Buying as a Need Fulfillment and Problem Solving Exercise

Marketing is basically about identification of needs of consumers and satisfying them in a competitive manner. Thus concept of marketing revolves around concept of needs. Motive of every product, good or service, is to satisfy some need, directly or indirectly. On the basis of Maslow's Need Hierarchy Theory five levels of needs are discussed below:

Physiological Needs

These are most basic, and vital for our survival to keep body and soul together. Examples are food, water and air.

In context of retail, Food and Grocery retailers such as Supermarkets, Kirana Stores offer staple goods to satisfy the basic routine needs.

Safety or Security Needs

These belong to another set of basic needs. Essentially, these connote physical security, but financial security is also an important dimension. Examples are clothing, insurance product.

One implication for retailers is the need to offer safe environment so that customers tend to spend more time in their stores.

Social Needs

It entails sense of belongingness towards a group. Acceptance, enjoyment, comfort level and sense of security are definitely higher in being part of a group. Offer of packaged tours by travelling agencies; visiting hyper markets, malls, entertainment zones along with family and friends connote satisfaction of social needs.

Starbucks, Barista, Caffe Coffee Day, and leading beverage stores promote their stores as places where friends can have party, socialize themselves and hang out for hours together. Starbucks management defines 'be welcoming' as "offering everyone as a sense of belonging."

Esteem Needs

Once social needs are fulfilled to some desired extent, a person tries to differentiate himself or herself from other members of the group. Addressing esteem needs by a retailer connotes making customers realise that their patronage is important to store. Retailers design their CRM programmes around this need. Many Retailers such as Ebony try to arouse nationalist feelings on special occasions such as Independence and Republic days, to make customers take pride in being Indian, offer special discounts and in that process promote their stores and products.

On the other extreme esteem needs become outwardly directed. People tend to demonstrate their affluence to others (also termed as demonstration effect). Retailers targetting high-end brand conscious customers tend to addresses this need.

Self-Actualisation Needs

These become important when fulfillment of materialistic needs is no longer crucial and a person looks for utmost development of his or her mental or intellectual capabilities, e.g. educational products such as encyclopaedia address self-actualisation needs.

Lifestyle retailers such as Wills Lifestyle, Globus, Shoppers Stop tend to offer products soothing the personalities of their buyers which are usually from upper strata of the society.

It has been observed that with increase in prosperity, sale of various art forms such as paintings, has increased during recent times in India. As these art forms address the highest order of needs their pricing is also high and not directly linked with the input cost. These art forms seek to address self actualisation needs.

■●■ Few Practical Aspects about Needs

Though these needs have been described in a hierarchical order, but in practice, set of needs is very dynamic, is always evolving and varies from one consumer to another. There are few aspects which are worth discussing here and can help in better understanding of later concepts.

- Physiological and safety needs are termed as Basic or Biogenic needs. The social, esteem and selfactualisation needs are higher-end needs, termed as Hedonic or Psychogenic. During early stages of life, the basic needs are more important.
- Once our basic needs are satisfied, higher-end needs become important. But again, it depends
 upon individual experience. A person born in a well-to-do family may not bother at all about the
 basic needs but, higher needs may be important to him or her.
- With rise in the standard of living over a period, focus of consumers has shifted to higher-end needs.
- The consistent satisfaction of higher-end needs may become natural expectation in future. Thus, these take the shape of basic needs.

Further, the same product may meet our multiple needs. For example clothing is primarily a basic need, but when purchased as fashion apparel, the motive is to facilitate better acceptance in a group, a social need. As a designer apparel, it is lifestyle statement and satisfies our esteem need. Even food, the most basic need, can be linked with fashion and lifestyle.

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Retailers in conjunction with their partners in the value chain, must ensure that right kind of need is being addressed. Retailers should continuously strive to improve their product offering so that customers can be kept glued to the store.

Needs, Wants and Demands

Need is different from want. While need is basic, want is the manifestations of the product needed to satisfy the need.

Suppose three friends feel hungry, while the food is the basic need to satisfy hunger, the first one look for **Pizza**, second one for *dal-chapati*, third one for *dosa*. When want is further supported by purchasing power and willingness to spend, it becomes demand.

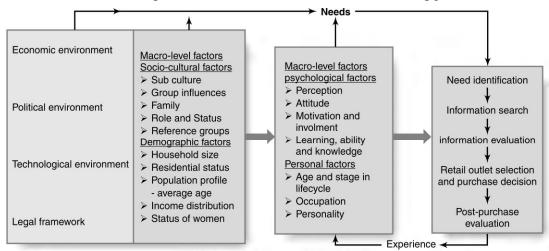
Difference between Customer Needs and Expectations

Needs and expectations are sometimes used interchangeably and in continuity with each other.

	Needs	Expectations
1	They operate mostly at unconscious level	They operate at conscious level
2	They are universally applicable.	They are specific to an individual.
3	They are deep rooted in human psyche.	They usually work at superficial level.
4	They have long term existence.	They can be shortlived .

■●■ Basic Model of Consumer Decision Making

A simple model to study the consumer behaviour has been given below. It consists of mainly two dimensions—factors affecting consumer behaviour and basic decision making process.



Simplified model of consumer buying behaviour

Exhibit 5.2

Taking EKB model (Engel, Kollat and Blackwell, 1969) as base and an example of purchase of LCD TV, the core process of consumer decision making in retail has been described as under:

Steps	Brief Description	Key Psychological Processes
Need identification	Consumer perceives a need and becomes motivated to solve a problem. How does a customer decide about purchasing a product or service? Suppose, the old CRT TV needs frequent repairs and is not able to show 200 plus channels being offered by new DTH service. Had it been postable. It would have portable and occupied less space according to limited living space available in big cities. Sometimes problem exists at subconscious level. Advertisements, store displays, sales staff can help in identification of a need by the customer. Retailers try to make customers realise that something is missing from their lives. This is termed as Felt Need, when there is actually none. For example, advertisement messages may convey that possession of LCD TV will add to their prestige and offer quality features while customer may actually not be conscious about these needs earlier.	Motivation
Information search	The consumer searches for information required to make a purchase decision. Once it is accepted that LCD TV can best meet the requirements, customer may look for information about different brands to help himself/herself make the purchase decision. Sources of information could be family, friends, neighbours, sales people, catalogues, internet browsing, magazines, newspapers or one's own experience. Customer may actually examine the product before making the purchase decision. It is well accepted that information best serves its purpose when it is provided at the time when the customer is seeking it consciously and where customer is visiting himself/herself. So, perhaps, there is no better place than the stores to convey promotional messages.	Perception
Information	The consumer compares various brands and products. Which LCD TV we purchase? The choice can be among many foreign as well as Indian brands. Like Sony, Samsung, Sansui, LG, Panasonic, Onida, Videocon, etc. Consumers may do comparison on the basis of various attributes. Customers can assign weightage to different product attributes as per their preferences and evaluate alternatives. For example, sound may be better in one brand and picture on the other. But, picture clarity is more important to you then sound. Consumers usually have some sort of brand preferences. The consumer also evaluates whether to purchase from the dealer in the locality, exclusive brand outlet, or multi-brand outlet like Vivek's or online purchase before making the final purchase decision.	Attitude formation
Retail outlet selection and purchase decision	The consumer decides which brand to purchase and from which store. Through the evaluation process consumers reach their final purchase decision followed by actual purchase. For some customers visiting store can be as just as exciting and rewarding as is the actual purchase of the product.	Integration
Post-purchase evaluation	Post-purchase The consumer evaluates their purchase decision. evaluation Post purchase evaluation is a common trait of buyers of the product. Manufacturers and retailers clearly want their consumers to feel proud of their purchase. They can feel satisfied or dissatisfied with the purchase. It may also depends upon after sales service. Store staff with their empathetic attitude can try to keep post purchase dissonance to the minimum.	Learning

■●■ Factors Affecting Consumer Buying Behaviour

Consumer behaviour is affected by many factors, most of them are not under the control of a retailer. Still, understanding all of these factors is important. It has been observed that across different product categories, trend is towards convenience, sensory pleasures, wellness and individuality. This metatrend has given desired impetus to retail environment.

With the understanding of these factors, retailers and other marketers can try to influence the buying behaviour. These factors operate at many levels, but broadly divided into two levels, i.e. macro and micro. For example, psychological factors operate at micro level, while socio-cultural factors operate at macro level.

Macro Level Factors

They mostly belong to the larger environment.

- 1. Socio-cultural factors
- 2. Demographic factors

Micro Level Factors

They operate at the level of an individual in a more direct manner.

- 1. Psychological factors
- 2. Personal factors

Let us discuss them one by one.

1. Socio-cultural Factors Culture is the set of values, perceptions, beliefs, norms, customs, languages, way of life, etc. learned by an individual as a member of society. It is inherited from one generation to another. It is like the inbuilt memory of a computer. It shapes the behaviour of a person that is reflected in shopping also. Understanding of cultural dimension can act as an opportunity for retailers, especially Multinationals. McDonald's is a very good example. On the other hand, Kentucky Fried Chicken (KFC) initially has to struggle a lot to portray an image that fits into overall Indian cultural context where more than 80% of food sold is vegetarian. It should be understood in the context of Indian society, where non-violence is deep rooted as a cultural value, and vegetarian food is preferred.

If a product comes up to the expectations of a particular cross-section of culture, the retailers can think of extending their products to international arena and across different cultures.

Sub-Culture It comes into existence when a group of individuals share similar value system and behaviour patterns within the group which differ significantly from those in other groups. For an individual, membership of a sub-culture is more important, which is also reflected in buying behaviour.

According to Kishore Biyani, Group CEO, Future Group, India is a 'Mass of Communities'. It is a diverse society multi-religion, multi-ethnic, multi-lingual. Concepts like localisation, micromarketing, niche retailing can better be discussed in context of sub-culture. There can be further division of cultures in the form of sub-sub-culture and so on.

Culture is dynamic and it undergoes changes in response to environment. Now 'Cultural Modernisation' is happening across different parts of globe. The children of traditional societies are growing up wearing western dresses, eating western food, listening to western music and most importantly, thinking western thoughts. So, retailers have to take all these aspects into account.

Group Influences The friends, colleagues and family members exert influence over the purchase behaviour of a coustomer. As per one survey, five out of six of customers would like to visit a store with a companion.

Role and Status Role and status are two sides of the same coin. Every status or position in the society has reciprocal role associated with it. Role is the expected behaviour from an individual by other members of the group or society.

A person is a member of many groups simultaneously and has separate status and corresponding role in each group. For example, a buyer as an employee in an organisation may not mind spending money to purchase expensive gift for his/her boss, while he/she would tend to make budgeted purchases as head of the family. Thus, membership at the time of purchase influences purchase behaviour.

Some important roles in the process of consumer behaviour

Initiator: Person who determines that some need or want is to be met. For example, a kid indicating the need of a toy.

Influencer: The person or persons who intentionally or unintentionally influence the decision to buy or endorse the view of the initiator, e.g. any siblings or peer, mother, grandmother.

Buyer: The person who actually makes a purchase.

User: The person or persons who actually use or consume the product Eg, kid is the of toy user.

Reference: Kotler, Philip & Pfoerrtsch, Waldemar, B2B Brand Management, Springer, 2006, p.26.

Exhibit 5.4

Generally, opinion leaders exert major influence on customer purchases in different groups. Some of the basic groups are:

Social Class It represents the social status of an individual in society on the basis of various factors such as income level, education, occupation. Caste system is still an active consideration in Indian society. Normally, there can be various classes like upper, middle, and lower as well as various subclasses like upper-upper, upper-middle and so on. Class consciousness is a very important factor in purchase decisions.

Family As a social group, family is closest to an individual and is the most prominent agent of socialisation, at least during initial stages of life. It has the most pronounced impact on the individual values, way of life, wants etc.

In India, with the breaking up of joint family system in increasingly urbanised society, performance of many functions such as entertainment, early education, have been taken over by the outside agencies. For example, growth of specialty play schools like KidZee, Eurokids and popularity of multiplexes and entertainment zones such as Essel World in Mumbai, Thunder Zone near Chandigarh. It has resulted in bigger role for younger members and women in purchase decisions.

Reference Groups Reference group refers to that group against whom one would like to compare oneself. The comparison can be on the basis of value system, beliefs, attitude, lifestyle to name a few. An individual may not actually be a member of that group, but it works as a strong opinion leader. Advertisers take this into account and sign up actors, actresses and cricketers to work as brand ambassadors for the promotion of their products. The term **celebrity endorsement** can be used in this context. The people would like to use the product which is used by their role models.

Reference group may be associative or dissociative. The reference group with which one would be like to identify oneself is the associative reference group and with which one would like to avoid is dissociative reference group. Reference group can further be primary and secondary. Primary reference group like family may exert more influence in comparison to secondary reference group.

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- **2. Demographic Factors** Demographic is the study of population. It covers gender, age profile, household size, residential status, growth rate of population, education, income distribution, occupation to name a few. Implications of few demographic changes for retailers in India have been discussed as under:
 - Comparative younger population indulges in outshopping. They take more risk and thus, there is better scope of selling innovative products for retailers especially in case of fashion apparels, entertainment, IT and electronic products.
 - Increasing percentage of women becoming part of salaried workforce actually means more confident women and with greater say in purchase decisions. They have less time for home which means increased demand for convenience products from retailers.
 - With information technology allowing people to work from home, more husbands may actually become house-husbands and assume many roles traditionally meant for women.

Urbanisation of society which is linked with demography has been discussed in Chapter 2 under growth factors in context of India. Retailers should collect and analyse data about demographic as it helps in ascertaining market size, sales potential and strategy formulation.

Other Factors in Environment In addition to above factors, political environment, economic environment and legal system are also parts of Macro-level factors affecting buying behaviour of consumers. Political environment means political system (single party, bi-party or multiple-party), and type of government (democratic, military). Economic environment covers economic system (capitalist or communism, planned or unplanned), GDP growth rate, rate of interest, family. Legal system provides regulatory framework for business activities. Consumer Protection Act, 1986 has made big changes in consumer behaviour and customers have become better aware of their rights.

Micro-Level Factors

1. Psychological Factors "Consumer behaviour" itself is a psychological term. So, buying is an manifestation of human behaviour. Understanding the terms like Perception, Attitude, Motivation & Involvement, Learning, Ability and Knowledge help in better understanding of the concept.

Perception It is the process of selecting, organising and interpreting information inputs to produce meaning. It is basically about attaching meaning to information or sensation our mind receives in the form of sight, taste, hearing, smell or touch.

Perception does not always develop in a direct manner and information gets filtered before it is actually stored in our mind, it is termed as perceptual filter. Perception may be different from reality. An idea about the terms Selective Exposure, Selective Retention, Selective Distortion helps in better understanding of concept of Perception.

Selective Exposure We may not respond to every piece of information, but to selective inputs which are linked with our current needs. For example, attention of a prospective buyer of LCD TV may automatically go to sales promotion schemes of different LCD TVs instead that of CRT TVs in a multi-brand electronics store. Secondly, intense messages about heavy price discounts may draw attention of visitors once they are in the store in comparison to other messages emanating from the store.

Selective Retention The individuals are likely to retain only those messages in which they have strong interest. Once in the store a prospective buyer is exposed to tens of sales promotion messages of LCD TV, but may retain only those brands which fulfil his requirements like economical price, quality features, maximum warranty period, after sales service, etc.

Selective Distortion Any information which is not consistent with our requirement or belief system may be distorted. For example LCD TV is good on all parameters but look should have been more aesthetic.

Good visual displays in the store attract customers, change their perceptions and motivate them to buy the merchandise. The retailers try to develop their stores as a brands to reduce risk perception of prospective buyers and increase value perception.

Attitude Attitude is the amount of feeling for or against a stimulus in environment. It can be positive, neutral or negative. Attitudes are stored in long-term memory and are reflected in the behaviour. They drive perceptions also. Individuals develop attitude through experience or interaction with others. It has the following implications for the retailer:

- If a customer is consistently satisfied with the better services, store atmospherics and merchandise, it results in positive attitude and image of store and develops store loyalty. However, there is a word of caution. Attitudes once developed are very difficult to be changed, especially negative ones. So retailers should be careful from the very beginning.
- It can have "halo effect" also. Based upon earlier purchase experience, Customer is likely to develop positive or negative attitude about other product offerings by the company and make purchase decision. If overall attitude of customers is positive, it motivates company to go for brand extension. Like Allen Solly, an apparel manufacturer and retailer for men apparel launched Allen Solly Women also.
- Attitudes develop most easily and directly in the absence of other competing beliefs or attitudes.
 Many retailers in India has gone for speedy rollout of stores across the country to get early mover advantage and develop positive attitude of customers about their stores during initial stages of development of modern retail itself. It also reduces the cost of advertisement.

Bata as a brand developed in a situation when there was hardly any competing brand. But in the present competitive environment, it may take painstaking efforts to develop the brand Bata at the same level, if it would have to start from scratch.

• The frequent discount sales may make it a permanent expectation of the customers. So retailers should be careful about it. Multi-attribute models help to identify how consumers combine different beliefs to form attitudes about various brand or store alternatives. Belief is what a person thinks about something and it is easy to change. With reinforcement it changes into attitude.

Motivation and Involvement Motivation is derived from the word 'Motive'. As a process, it is built around the concept of needs and our desire to achieve a certain outcome. Need is basically a sense of deprivation and our actions are oriented towards satisfying those needs. The level of motivation depends upon the intensity of need. The concept of needs has been discussed under buying as need fulfilment process. For the purpose of simplification, the consumer motivations can be categorised as:

Economic The main goal is to save money. It is linked with value perception

Hedonistic The aim is to feel pleasure.

Risk-avoiding The goal is to reduce risk of being disappointed by a purchase decision by remaining loyal to a favorite brand or store.

Relational The aim is to be recongnised as a privileged client by establishing a relationship with a store or its staff.

Functional The aim is to decrease the time and effort devoted to making purchases, mostly applicable in food and grocery-stores.

Customers' purchase decisions are motivated through advertisements, family and friends. In-store sales promotions, displays, signage, lighting, music motivates customers to spend more time in stores and increase scope for impulse buying.

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The role of Personal selling is central in the store. They covert customers from low involvement situation (low motivation) to high involvement one (high motivation) by establishing personal rapport, answering queries, and instilling confidence. This facilitates purchase decision, especially in case of high value, fashionable and technical products.

Learning, Ability and Knowledge Learning is the process through which a relatively permanent change occurs in behaviour, mainly through sharing information and experiencing by customers. Sources of information can be commercial such as advertisement and non commercial such as family member. The learning can be of two types:

- 1. Behavioural Learning: It is the result of repetitive doing.
- 2. Cognitive Learning: It is the outcome of thought processes and application of reasoning.

The learning can also be through observing actions of others, termed as observational learning. The retailers should try to positively reinforce pleasant learning of customers by free samples, telemarketing, vouchers, coupons, etc.

In context of retail, a pleasant experience in the store becomes part of consumer memory and it may become store of its first choice. For example, at least three-fourth of customers are able to recall the name of the store which is of their liking and they are regular visitors to that store. A major chunk of consumers remember the store due to its window displays, interior designing, music. Learning and unlearning go simultaneously.

Ability It is the capacity to learn about products. Retailers should try to assess the ability of their customers and extend them the opportunity to learn, which is crucial for impulse purchases. Language used in signages, product information should take care of this aspect.

Customers should be given purchase material, free samples, training to use the product e.g. companies selling sewing machine such as Singer and Usha provide training to women folk to learn design skills. Personnel selling also help customers to learn more about product features, its usage and thus, facilitates taking purchase decisions.

Knowledge It is the expertise and familiarity with the product. It increases ability to take decision as buyers with good knowledge are in a better position to evaluate alternatives. This aspect is especially true in case of technical products.

4. Personal Factors These factors are unique to a person.

Age and Stage in Lifecycle Buying preferences and habits of young people are different from those of older people. Childhood, teenage, single, youngster, married, middle age, old age are different stages of life. The needs are different at different stages. Once a person is married, the family responsibilities may not allow him/her to spend much on fashion products. After retirement, when a person is free from major family responsibilities, he has more disposable funds and he likes to spend money. That is the precise reason that these people are referred as **Silver Spenders**.

Lifestyle Trends It is reflected through activities, interest and how we spend our time and money. It is dependent upon many factors such as the lifestyle.

Occupation Buying behaviour of a doctor will be different from the professional manager. Economic situation of a person also have strong impact on buying habits. The buying behaviour of newly rich person with hard earned money will be different from a person with inherited property.

Personality It is one of the most important factors. It is the sum total of personal characteristics of an individual. How does one perceive oneself is basically self concept. Understanding its importance, the retailer has to offer the product that matches self-concept of the customer.

Purchase Situation Purchase decision considerably depends upon situation. There can be countless purchase situations when purchase decision may change such as a desired product or brand is out of stock, (No option but to purchase another brand), upset mood, time of the week, day of the week, purchases while attending mobile phone call and so on. Purchase situation can have greater impact in case of minor purchases.

Consumer Segmentation in Retail

As discussed earlier in Chapter 3, mass retailers deal with the whole market instead of a single market segment. For example, a convenience chain with stores across a wide geographical area deals with largest possible potential market of homogeneous needs. It will offer same staple merchandise—food and grocery to each and every customer.

But what, if few of the customers starts demanding organic food items. Then, definitely the retailer should try to identify features of these customers, assess their sales potential and change its response accordingly. By making different product offering to different groups of shoppers, retailers can set themselves apart and give people a reason to keep coming back. However, the marketer or retailer may not be able to satisfy the whole market with same retail mix. In this situation, it becomes imperative for retailer to identify the market segments and design separate retail mix for each market segment.

Thus, market segmentation is the process of dividing the whole market into customer groups consisting of people who have relatively similar set of needs. But every segmentation scheme is not practicable. The various criteria adopted for segmentation are given as under:

- 1. **Measurable:** Aspects like size, purchasing, etc. should be measurable.
- 2. **Substantial:** It should be large enough to be profitable.
- 3. **Accessible:** It should be reachable.
- 4. **Differentiable:** It can be differentiated from other groups in terms of needs.

Retailers usually follow two approaches:

- 1. **Concentration strategy:** It focuses on a single market segment.
- 2. **Multi-segment strategy:** It serves the needs of two or more market segments at the same time. There is separate marketing plan for each segment.

Basis of Consumer Segmentation

The consumer segmentation can be done on following basis:

Demographic Under demographic segmentation, there are so many criteria like age, sex, occupation, income, education, family size on the basis of which segmentation can be done.

Residential Status Urban and Rural. Many important aspects of Rural Market have been discussed in Chapter 2.

Right now, retailing is predominantly a urban phenomenon and retail giants are focussing on urban markets, Consumer segmentation can be done on the basis of types of cities:

TierI: Metropolitan cities such as Delhi and Mumbai—offer developed infrastructure, easy accessibility and availability of talent pool but includes high costs

Tier II: Emerging cities, such as Pune, Hyderabad and Chennai

Tier III: Potential cities, such as Nagpur, Ahmedabad, and Chandigarh

Fundamentals of Retailing

Age Different age groups like parental care, teenage, young, middle aged, senior citizens.

Lilliput has special autumn and winter collections which is further categorized according to age group.

It generally caters to age group between 0-12 years. 'Happily Unmarried' predominantly targets age group between 22–45. Its large section of customer base includes newly married couples.

Gender Male and female

Occupation Salaried (government and private), self-employed,(business and agriculture), professionals (like doctors, lawyers, etc.)

Generation The rate of change has become so fast that scope for generation gaps is always higher. The different generations can be segmented as Baby Boomers, Generation X, Generation Y, Internet Generation.

Household Income It is well accepted that as a market India is so diverse that no segmentation is foolproof. McKinsey has done a study to reflect how the rapidly expanding Indian economy is creating new consumers. On the basis of study, all households in Indian consumer market have been divided into five major consumer segments:

Segment	Brief Description	Household Income (in USD)	No. of Households (in millions)	Retail Spending (USD per household)
Globals	Standard of living at par with developed countries, confined mainly to eight largest cities which are easily accessible to big retailers	> 22,000	1	12,800
Strivers	Buy the bulk of all consumer goods in India	11,000-22,000	2	5,200
Seekers	Buy some durables especially, television and small home appliances	s 4,000-11,000	11	2,300
Aspirers	Buy the most basic durables such as transistor radios, bicycles, and aspire for the rest	2,000-4,000	91	1,350
Deprived	Generally do not consume manufactured goods	d <2,000	101	7,00

Reference: McKinsey Global Institute.

Exhibit 5.6

It takes into account the definition offered by NCEAR. Middle class-income level lies between 4,380-21,890 USD or Rs 2-10 lac (in 2000 real terms). It should be noted that there is no definition of middle class which is agreed upon by all. As per report, estimates, out of the current 204 million households in India, only about 13 million households have the income to patronise organised retail in true sense. The great news is that this relevant consumer segment will grow five-fold from 13 million to 65 million households in the next eight years.

Education Under Graduate, Graduate, Post Graduate

Family Structure Nuclear Family, Joint Family, Single

Segments of Indian Consumers—From a Different Perspective

Socialites: Socialites belong to the upper class, prefer shopping in specialty stores, spend a good amount on luxury goods and enjoy going to clubs on weekends. They are always look for novelty. They go for high-end exclusive products and the best brands in the market.

Conservatives: The Conservatives belong to the middle class and are, perhaps, true representatives of Indian culture. They may take pride in having traditional outlook, be cautious in purchase decisions, like to spend more time with family and give priority to savings. They never take decisions in haste and seek a lot of information. They look for value for money, and at the same time they are image conscious. They prefer high-end products, but often settle for the more affordable one.

Working Women: The working women segment is the one, which has seen a tremendous growth in the late nineties. The economic empowerment of women has thrown open many opportunities for Indian retailers. The Indian woman has grown out of her traditional image of being the homemaker. She can take her own purchase decisions. In addition, there are other categories such as rural customers.

Reference: Report, Matrade Chennai, October 2005

Exhibit 5.7

Geographic Segmentation It can be on the basis of terrain, climate, natural resources, direction, etc. Geographically, India is generally divided into five regions—Northern, Southern, Eastern, Western and Central. Southern and Western regions are considered better as retail markets than northern (except few pockets like Delhi, Punjab, Haryana, Chandigarh etc.) and eastern regions. So retail mix of a retailer can vary from one region to another. It may also vary within the hundreds and thousands of small cities, towns and villages in these regions.

Psychographic Segmentation Students have already got some idea about various psychographic variables such as motivation, attitude, lifestyle, etc.

As concept of motives or motivation is built around needs, there can be two types of customer segments, first for basic needs and second for higher end needs. As per life style, the segments can be classified as traditional and pragmatic. On the basis of attitude, there can be three types of customer segments: Positive, Indifferent and Negative.

Behavioural Segmentation Behavioural segmentation is applicable in real retail situations as it is based on actual consumer behaviour towards a product or product category. Some of the important variables used for behavioural segmentation are given as under:

- 1. Benefits Sought The different consumer segments seek values differently, such as
 - Convenience (home delivery)
 - Efficient services (efficient POS system)
 - Brand satisfaction (prefer visiting exclusive brand outlet)
 - Economical price
- 2. Usage Rate There can be light users, moderate users, heavy users. This segmentation is especially used in case of loyalty programmes. Students can refer to concepts like customers pyramid for better understanding.
- 3. Brand Loyalty
 - Hard-core loyals: They stick to one store or product brand. Many customers have been visiting
 Capital Book Depot, Indian Coffee House in Chandigarh for decades together. This is specifically
 true in case of gold ornamental sellers. Customers usually have strong bonding with them which
 may span over generations. Many kirana stores also enjoy strong patronage of local customers.

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- Split Loyals: Sometimes Subhiksha or sometimes 6Ten
- Shifting Loyals: Shift from Subhiskha to 6Ten to Reliance Fresh and so on.
- 4. Store Visits Non-visitors, ex-visitors, regular visitors, potential visitors
- 5. Occasions Customer segments can include customers who make purchases on special occasions such as Diwali, Holi, etc. as well as make purchases once in a life-time such as marriage. The retailers may tend to charge prices in later customer segment.

Mark Hunter "The Sales Hunter" has identified five types of shoppers. Evaluating these segments from a strategic perspective can help improve bottom-line of the retailer. This is also largely the extension of behavioural segmentation in a very simple manner.

Loyal Customers: They represent not more than 20% of customer base but account for more than 50% of our sales. **Discount Customers:** They shop our store frequently but make their decisions based on the size of our markdowns.

Impulse Customers: They do not have buying product at the top of their "To Do" list but come into the store on a whim. They purchase what seems good at that time.

Need-Based Customers: They have a specific intention to buy a particular type of product.

Wandering Customers: They have no specific need or desire in mind when they come into the store. Rather, they want a sense of experience and/or community. (The term "**Window Shopping**" is very popular in this context)

Reference: Images Retail, January 2008.

Exhibit 5.8

Retailer's Strategic Response

It usually consists of following elements:

Target Market

It is the market segment towards which the retailer plans to focus its resources and retail mix. It is the end of segmentation process. There can be many market segments, but it may not be feasible for a retailer to cater to the needs and wants of each segment. It may select segment to which it can offer value and is profitable also. For example, the Subhiksha targets at middle class residents, while Shopper's Stop aims at premium customer segment.

Retail Format

It suggests the type of retail mix to be adopted to compete in the market. It has been discussed in detail in Chapter 3. The nature of merchandise and service offered, pricing policy, location, promotion programme are the main criteria. In addition, store design and visual mechandising can also be considered by the retailer to satisfy the needs of its target market.

Core Competence and Sustainable Competitive Advantage

Core competence is the capability which is very difficult to be copied by the competitors. Thus, it gives sustainable competitive advantage over the competitors. For example, Wal-Mart has used its supply chain as its core competence which has given it an advantage over its competitors. But it takes a lot of time to develop this advantage.

Building a Sustainble Competitive Advantage

An attempt has been made to identify the ways and means, which can give sustainable competitive advantage to the retailers. These have been discussed as under:

- 1. Customer Loyalty It is eliciting commitment from the customers to buy merchandise and services from a particular store. Trained and dedicated employees, unique merchandise and superior customer service help in developing a loyal customer base. It is further facilitated by (i) Retail Branding—It builds up trust and loyalty of customers and minimises risk attached with the purchase (ii) Positioning—Unique positioning of retailer vis-a-vis its competitors is important to develop loyalty, e.g. Namdhari Fresh has uniquely positioned itself as a supplier of a range of fresh produce—fruits and vegetables (iii) Loyalty Programmes-Keeping database has become very important for an organisation, to earn patronage of the customers. For that purpose, the customers have to be given some extra benefits also, e.g. Clubmore (by 'more' supermarkets chain of Aditya Birla group).
- **2. Location** Location is a critical factor in consumer's selection of a store. Starbucks Coffee is a great example. Their strategy is to conquer one area of a city at a time and then expand in the region. They open stores close to one another to let the storefront promote the brand; they do little media advertising.
- **3. Distribution and Information Systems** Retailers try to have the most effective and efficient way to get their products at a cheap price and sell them at a reasonable price.
- **4.** *Product Differentiation* It means offering unique product to the customers. Private labels and store brands can help in this regard.
- **5. Vendor Relations** Retailers developing strong relations with vendors may gain exclusive rights to sell merchandise in a specific region, obtain special terms of purchase that are not available to their competitors who lack such relationships, and receive popular merchandise in short supply. Such relations take years together to develop. Once made, these are hard to break.
- **6.** *Customer Service* This takes considerable time and effort but, once it is established, it is hard for a competitor to develop a comparable reputation.

■●■ Strategic Retail Planning Process

The retail business, like any other business activity, exist in an environment. Here it is important to mention the concept of SWOT analysis—Strengths, Weaknesses, Opportunities and Threats. **Strengths** and **Weaknesses** are internal to an organisation and **Opportunities** and **Threats** mostly exist in the external environment. Retailers have to formulate strategies in order to (i) survive and grow in the competitive environment (ii) and exploit opportunities and minimize threats.

Strategies can help retailers to adjust with the environment and get benefited from opportunities in the retail environment to achieve its long term objectives or mission. For that, it is also required that retailers to get their act together and function in an internally coherent manner. Many elements of strategic retail mix such as merchandising, location, pricing, etc. have been discussed in Chapter 3. Supply Chain Management is also an important element of strategy. Retailer's strategic response to the environment is in the form of these elements of retail mix.

While strategy deals with external environment with long term perspective, tactics such as small pricing adjustments, have to be adopted to deal with emergent situations in the local competitions or market conditions. Tactics are supposed to support achievement of strategic objectives in the long run.

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For example, a big retailer's strategy is to offer rich shopping experience to its customers, but simultaneously, it has to rely on many tactical moves such as price discounts on few items, coupons, rebates, etc. to draw customers towards the store.

Strategic Planning Process helps retailers to specify the objectives, identify the opportunities which exist in the environment and to plan strategies to compete successfully in the retail environment. It consists of following main steps:

- 1. Defining Mission Statement
- 2. Scanning of Retail Environment
- 3. Formulation of Retail Strategies
- 4. Implementation and Evaluation of Strategies

1. Defining Mission Statement

Mission statement is a broad description of a retailer's objectives and the scope of activities it plans to undertake. Further, it defines the general nature of the target market segment and retail formats which the firm would like to develop to serve those target segments.

Few questions concerning businesses are given as under:

- 1. What kind of product category are we dealing in now?
- 2. What should be our business in future?
- 3. Who are our customers?
- 4. What is our competence?
- 5. What do we want to accomplish in society?

Vision statement of the retailer reflects about how an organisation sees itself in future. Taking clue from mission statement, the specific objectives are to be set. In case of retailer, these have to be in terms of product categories, retail formats, market segments.

2. Scanning of Retail Environment

It is basically situation audit or SWOT analysis. It has got two dimensions—External and Internal. Opportunities and threats exist in the external environment. Internal analysis deals with strengths and weaknesses of the retailer which decides about its competence to deal with the competitive environment. It aims to minimize the level of threats, taking maximum advantage of opportunities which exist in the retail environment. A deeper analysis shows that it is akin to BCG Matrix in many respects. Retailers can take clue from Strategic Quadrant Analysis given by Beckman. Students can refer to topic of Category Assessment in chapter.

Many aspects of environment such as socio-cultural, demographic, economic, political etc. have been discussed under factors influencing consumer behaviour in the earlier part of the chapter.

In environmental scanning, the understanding of following factors is also important:

Size Whether the retailer is big or small.

Seasonality Whether retailer is dealing with seasonal product such as woolen items or perenial grocery items.

Growth Rate Whether the growth rate of retailer's product category is low or high.

Business Cycle It is also very important. Like in the last few years, the economy was booming, but it has shown definite signs of slowing down in the second half of 2008 in India.

Competitive Factors Taking clue from Porter's Five Forces Model, analysis of competitive factors is also crucial to scan retail environment and make investment decision.

Entry Barriers Certain conditions may be institutionalised in retail environment which may make the entry of other players difficult in the market. Retailers try to achieve economies of scale, customer loyalty and acquisition of good locations. It is the precise reason that many retailers in India want to take early mover advantage in changed retail environment and enter into contracts for good locations with real estate developers.

Scale Economies These are cost advantages due to retailer's size. The seller concentration ratio which tells about the market share by four or five top retailers also reflects about scale economics.

Bargaining Powers of Vendors If the bargaining power of vendors is high, market becomes less attractive for retailers as profit margins may be squeezed. In India, the vendors like retailers are fragmented and most of vendors are small to medium sized companies.

Competitive Rivalry This reflects the actions and counteractions adopted by competing retailers in the market. If competition is intense, it results in price wars, and increase in advertising expenses.

3. Formulation of Strategy

As discussed in Chapter 3, developing retail mix in the form of retail format is the response of retailer after identifying opportunities in the form of target segment. The retail mix has been discussed in Chapter 3, under retailer characteristics.

The different strategies which are specifically adopted by retailers have been discussed as under:

Growth Strategies Based on parameters of retail format and market segment, the different growth strategies adopted by retailers to grow their business are given as under:

	Existing Market Segment	New Market Segment
Existing Retail Format	Market Penetration	Market Expansion
New Retail Format	Retail Format Development	Diversification

Reference: Ausoft Matrix

Exhibit 5.9

Market Penetration Market penetration as a growth opportunity, achieves growth by directing more efforts towards existing customers using present retailing format. Market penetration approaches include opening more stores in the target market and keeping existing stores open for longer hours. Starbucks usually follows a clustering strategy aimed at stifling competition in the markets where they are present. Subhiksha opens many stores in a particular city to achieve supply chain efficiencies while getting stronghold of the market.

This approach also entails displaying merchandise to increase impulse purchases. The retailers impart training to sales-force so as to enhance their skills to cross-sell. For example, apparel retailers try to sell fashion accessories to their customers. Food sellers may try to sell desserts after main meal.

Cross-selling means that sales people in one department or product category attempt to sell complementary merchandise from other departments or product categories to their customers.

Market Expansion For conventional marketing, it means entry into new geographic areas. Retailers can try to enter into new markets. For example, Reliance Retail plans want to have retail stores every few kilometers across India. Most of the modern retail chains in India originated in South and gradually expanded into other parts.

New Retail Format Development It is an opportunity in which a retailer develops a new retail format—a store with a different retail mix—for the same target market. Best Buy offers the Geek Squad to be of assistance to people that need 24 × 7 computer support and service. Best Buy offers both tangible products and also service.

A store chain starting e-retailing is an example of new retail format development. For example, Future Group has started new retail format futurenazaar.com, which also aims to serve existing customers better besides targeting new ones. Bank ATMs and kiosks located in a city mainly serve the same clientele and provide many products and services as provided by their conventional stores.

Diversification Diversification as a growth opportunity means adding more product categories to the existing products. It has been discussed earlier also that retailers keep adding on new product categories in order to increase their sales and ward off competition. It is termed as scrambled merchandising. Retailers can also introduce a new retail format directed towards a market segment that is not currently served by the retailer.

Diversification opportunities are either related or unrelated.

1. Related vs. Unrelated Diversification *Related Diversification:* In related diversification, retailer starts selling the related products to their existing target market segment. It aims to achieve synergy. For example, a food and grocery retailer also starts retailing a range of organic food. Retail banks offering car financing in addition to personal loans, is also an example of related diversification.

It can be also be done by using the existing retail format to enter in to the new market segments. The retail format is essentially the same. Koutons have started Les Femme for ladies and Koutons Junior for children using largely the same retail format.

Unrelated Diversification It means foraying into a new business which is not linked with the present business. Subhiksha started mobile phones through its stores which was originally selling food and grocery items.

2. Vertical Integration It is diversification by retailers into wholesaling or manufacturing. Gitanjali Group have integrated different aspects of diamond trade starting from sourcing of raw material, designing and marketing of own branded jewellery. In the same manner, Koutons try to control all stages of value chain such as production, distribution and sales operations.

Strategic Opportunities and Competitive Advantage Retailers enjoy the maximum competitive advantage when they are able to identify and exploit opportunities which match with their present retail strategy. They should be cautious about entering new, unfamiliar markets or operating new, unfamiliar retail formats.

Internationalisation as a Retail Strategy Globalization of markets has resulted in uniformity of consumer tastes and product preferences in many markets. The success of many international brands like Armani, Hugo Boss and Calvin Klein in fashion clothing, McDonald and Pizza Hut in fast food has prompted many other retailers to pursue global growth opportunities more seriously.

When the retail giants are facing increasing competition in their already saturated domestic markets, the only way to expand is to enter global markets. Of the 50 largest retailers, 37 operate in more than one country. The successful global retailers belong to all categories.

- Specialty store retailers such as Starbucks, McDonalds
- Category killers such as Gap, IKEA and Home Depot, Toys 'R' Us combine brand choices and low prices, which appeal to consumers in different cultures
- Discounters such as Wal-Mart, Carrefour

Keys to Global Success Following factors are crucial for the success of international operations.

Globally Sustainable Competitive Advantage Retailers need to have a core competence such as low-cost, operational excellence, strong private brands, image and category dominance. Wal-Mart and Carrefour are successful in international markets due to their competitive pricing. Zara is successful due to its ability to convert fashion idea into manufacture apparel.

Cross-Culture Adaptability Carrefour is the best example of global acculturation. They have an effective organizational system that coordinates and works well in all the countries where they present. Carrefour has international experience spanning over three decades both in developed and developing countries.

The assortment of items to be sold is also very different across different cultures. In Japan, China and UK, food sales is more important than that of in USA. In India, consumers prefer fresh vegetables in comparison to processed food. Starbucks used "jelly cubes" (a popular dessert in Japan) in Coffee Frappuccinos@ blended beverage in its Japanese stores.

Retailers must adapt to other cultures such as colour preferences, preferred cut of apparel, and sizes of clothes. For example, in India people prefer brighter colours in comparison to their western counterparts Selling seasons also vary across geographical regions.

Store designs and layouts may differ due to country culture variations.

Localisation: Brands go local with regional variants:

A Tea company tweaks its contents for different tastes, a shampoo brand turns more organic while catering to South Indian markets and a healthcare major launches a product specific to select markets. National brands are going local with product variants for different regions. The variation extends to product packaging and formulation also. This is done to suit regional tastes.

Companies with pan-India presence like Dabur India and CavinKare have already launched or are planning to launch products across categories (hair care, surface cleaners, personal hygiene and foods, etc.) that caters to regional tastes. Most of the regional brand variants are limited to western and southern markets. "This is because, there is strong belief in natural products, the market for which exists in these states" says CavinKare VP (Marketing) Vineet Trakroo.

While CavinKare says its shampoo brand Meera, which is an umbrella brand with several regional variants, are communicated in the state vernacular and tailor-made for specific markets. For example, the shampoo is called Meera Aritha Ras (extract from aritha nuts), in many markets such as Kerala, it is marketed as Meera Shampoo with kundkudukai and badam. It will help become it category leader nationally. Dabur is looking at increased revenues shares from regions where it has launched personal care and hygiene products. Similarly, WaghBakri Tea, which is going national with its tea brand, follows the policy of different regional tastes. The strategy helps them fight strong regional brands and add to their national market share in that category, say brand experts.

This discussion is very much relevant to retailers to launch private labels for local markets. Localisation is applicable to store layouts, design and visual merchandising also.

Reference: Economic Times dated May 14, 2008

Exhibit 5.10

Government Regulations Government regulations governing employees (like Contract Labour Act, Minimum wages Act, holidays, hours of operation are few important issues concerning retailers. Indian Government allows 100 per cent foreign direct investment (FDI) in cash and carry through the automatic

route and 51 per cent in single brand. Besides, the franchise route is available for big operators. To further attract global retailers, the Economic Survey 2007-08 has suggested a share for foreign equity in all retail trade and 100 per cent in respect of luxury brands and other specialised retail chains.

Supply Chain Capabilities Robust Supply Chain Management is vital for success of international operations of retail chains.

Financial Resources Global expansion requires a long-term commitment and considerable upfront planning. Retailers find it very difficult to generate short-term profits when they make the transition to global retailing.

Entry Strategies Retailers can take the following *four* approaches when entering into a non-domestic market:

- **1. Direct Investment** involves a retail firm investing in and owning a division or subsidiary that operates in a foreign country. This entry strategy requires the highest level of investment and exposes the retailer to significant risks, but it has the highest potential for earnings. Direct Investment aims at total or partial Control of Operations.
- **2. Joint Venture** is formed when the entering retailer pools its resources with a local retailer to form a new company in which ownership, control, and profits are shared. Examples in India are Joint venture between Wal-Mart and Bharti Retail, Tata and Woolworth. A joint venture reduces the entrant's risk.
- **3. Strategic Alliance** It is a collaborative relationship between independent firms. It may mean sharing of local logistics, warehousing or retail store infrastructure.
 - There is agreement between mall developer DLF and Armani for operations in India.
 - International brand Zapp tied up with Raymond to foray into kids' apparel.
 - PVR has entered into contract with Starbucks to promote its products in India.
- **4. Franchising** offers the lowest risk and requires the least investment. However, the entrant has little control over retail operations in the foreign country, reduced potential profits, and increased risk of assisting creation of a local domestic competitor. U.K.-based Marks and Spencer has franchised stores in 29 countries.

4. Implementation and Evaluation of Strategies

The real worth of a strategy lies in its implementation. Retailer's organisation has to work as a team with tasks assigned to its different members and the strategy is to be supported with many tactical plans. Periodic review of performance is crucial because firstly, the scarce resources are at stake and secondly, the retail environment is changing continuously. The retailer has to develop and put in place the effective control mechanisms.

To sum up, it is important to mention here that the strategy planning process is continuous as the retailers may have to continuously shape and reshape their respond according to changes in the environment.



> Study of Consumer buying behaviour aims to develop understanding about the different stages of buying and to see how customers spend resources to satisfy their needs. It helps retailers to take

- decisions regarding timing of launch of a product, decisions about private labels, multi-channel retailing, etc. It can give competitive edge to retailers.
- ➤ There are four types of purchase decisions on the basis of two parameters (Minor/Major and New Purchase/Repurchase) Minor New Purchase, Major New Purchase, Minor Repurchase and Major Repurchase.
- ➤ Buying as a need fulfillment is closely linked with the concept of needs. Different retailers and products may address different kinds of needs.
- ➤ Basic model of consumer decision making includes the steps like Problem Recognition, Information Search, Information Evaluation, Decision Making and Post Purchase Evaluation.
- ➤ The factors affecting buying behaviour have been divided into four main categories—Psychological (perception, attitude, motivation, learning, etc.), demographic, socio-cultural (sub-culture, group influences, role and status, family, reference groups) and personal (lifestyle trends, occupation, personality).
- ➤ It is not possible for the retailer to cater to customers of all hues and shades, so it becomes important for the retailer to decide about its target clientele. The consumer segmentation is done on the following basis—Demographic (residential status, age, gender, occupation, generation, household income, education, family structure), Geographic, Psychographic and Behavioural.
- ➤ Retail format is the response of retailer towards the needs of customers. There are various tools and techniques to build up sustainable competitive advantage to the retailers such as building loyalty, location, distribution systems, vendor relations and customer service.
- ➤ The strategic retail planning process consists of the steps such as Mission Statement, Environmental Scanning, Deciding about Strategies, their Implementation and Evaluation. In this chapter an attempt has also been made to give some idea to retailers about growth strategies (Market Penetration, Expansion, Diversification), Internationalisation and Entry Strategies (Direct Investment, Joint Venture, Strategic Alliance and Franchising).

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-{Revision Exercises]

■ ■ Very Short Answer Questions

- 1. What is consumer behaviour?
- 2. Differentiate between needs, wants and demands.
- 3. Differentiate between customer needs and expectations.
- 4. What is retail strategy?
- 5. What is consumer segmentation?
- 6. What are the requisites of consumer segmentation?
- 7. What is target market?
- 8. What is psychographic segmentation?

Short Answer Questions

- 9. Discuss the various demographic factors affecting buying behaviour.
- 10. Discuss diversification as a retail strategy.
- 11. Discuss different types of needs in context of consumer buying behaviour.
- 12. Discuss behaviourial segmentation.
- 13. Discuss the importance of cross cultural adaptability.
- 14. What is the process of consumer behaviour?
- 15. What is environmental scanning?
- 16. Why is the study of consumer behaviour to the retailer significant?
- 17. What are the different types of purchase decisions?
- 18. Discuss Internationalisation as a retail strategy. Can localization and internationalization go together in a retail market?

■ ■ Long Answer Questions

- 19. Discuss psychological factors affecting consumer decision making.
- 20. Discuss consumer segmentation on the basis of demography.
- 21. Discuss different growth strategies.
- 22. What is sustainable competitive advantage? How can it be achieved by a retailer?
- 23. Discuss in detail the cultural factors in retail decision making.

CHAPTER

6

Measuring Financial and Operational Performance in Retail Business



After studying this chapter you should be able to understand

- ✓ important basic concepts of accounting—financial statements, key terms
- ✓ routine problems faced by retailers
- ✓ concept of ratio analysis, Dipstick Parameters
- ✓ key retail-specific financial and operational performance measures

Fundamentals of Retailing

■●■ Introduction

It is said that **retail is about detail**. This is specifically true in financial and operational aspects. Retail as a business activity, operates on thin margins and entails numerous transactions relating to sales and purchase of merchandise and needs arithmetic calculations at every step. To ensure its long term success, it has to get its act together on day to day basis whether it is mark-ups and mark-downs, making sales, procuring merchandise, replenishment, etc. Most of these calculations are simple and can be easily understood by a person with average mathematical aptitude. Wal-Mart, the largest retailer in the world, has adopted a very cautious and down to earth approach in the conduct of its business operations. It has developed core competence to survive and grow even during the toughest of times.

Though there are many financial tools and techniques available such as Financial Ratio Analysis, Cash Flow Statement, Fund Flow Statement to name a few, these are beyond the scope of this book. However, some general idea has been given about ratio analysis and various dipstick measures. The financial statements have been discussed as these are basic in nature, thus some understanding about them is required.

■●■ Financial Statements

Retailers, as is the case with other businesses, follow the accounting process to get an idea about the end result of all the activities undertaken during the financial period. The end result is reflected in final accounts. There are two final accounts, also termed as (i) Trading and Profit & Loss Account (ii) Balance Sheet. Trading and Profit & Loss Account is also termed as Income Statement.

Trading and Profit and Loss Account

It is made to calculate the amount of net profit. We will see with the example given in (Exhibit 6.1) how the calculations are actually made at different stages.

Income statement account generally has the following items:

- **1. Net Sales** To calculate net sales, the amount of merchandise returned by customers, mark-downs are deducted from gross sales.
- **2. Cost of Goods Sold (COGS)** Cost of goods sold takes into account the prices paid by the retailer to purchase merchandise and other direct expenses. Direct expenses such as transportation and other inward carriages are the main direct expenses in case of retail organisation.
 - COGS = Opening Merchandise Inventory + Net Purchases + Direct Expenses Closing Merchandise Inventory.

This helps in calculation of inventory to be sold. If the COGS is very high, then gross profit of the retailer will not be sufficient to support the indirect expenses such as rent, salaries, etc. Hence, the retailer should have some effective purchase system in place so that it is able to earn good profit. If the purchase price of the retailer is higher in comparison to that of its competitors', then the retailer will not be able to earn profit. The opportunity to mark-down the prices is also less to attract the customers.

3. Gross Profit It is calculated by deducting COGS from net sales. As it covers direct expenses which are also supposed to be made by almost every competing retailer, the purpose of calculating gross profit margin gives an idea about the viability of the business in terms of difference between selling price and purchase price (inclusive of transportation, primary packaging, etc.). It is pertinent to mention that calculations for gross profit form a part of the trading account.

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Trading and Profit and Loss account for the year 200X

Heads	Amount (in Rs)		
Net sales	100		
Less cost of goods sold	78		
Gross profit margin	22		
Less operating expenses			
Staff expenses	2		
Store rentals	3		
Electricity charges	2		
Maintenance expenses	2		
Promotional expenses	1		
Operating profits*	12		
Less interest	1		
Less depreciation	1		
Earnings before taxes/profit before tax (PBT)	10		
Less tax	2		
Profit after tax (PAT)	8		

^{*}Operating profits are also termed as earnings before depreciation, interest and taxes (EBDIT).

Exhibit 6.1

- **4.** *Operating Expenses* These are the expenses incurred to run routine operations of the business such as staff salary, rentals, maintenance, advertisement, etc.
- **5. Operating Profit** This has been mentioned as EBDIT in the example (Exhibit 6.1). It is calculated after deducting operating expenses from the gross profit. It reflects about the performance of main operations of the business.
- **6. Non-operating Expenses** Interest, depreciation are the main non-operating expenses. Taxes are taken into account to calculate net profits (after tax).
- **7. Earnings before Taxes** or **Net Profit (before taxes)** It is the difference in amount between operating profit and non operating expenses.

So, Net Profit = Operating Profit – Non-operating Expenses

8. Net Profit After Tax It is also termed as earning after tax (EAT) or simply profit after tax (PAT). It is calculated as

Net Profit after Tax = Earnings before taxes - Taxes

The net profit actually belongs to real owners of business, also called as shareholders. Part of it can be retained in business for future growth or part can be taken by the owner in the form of drawings (dividend in case of shareholders).

We can see the sequence followed in income statement—first, direct expenses, then operating expenses and thereafter non-operating expenses to calculate gross profit, operating profit and net profits, respectively in the income statement.

In food and grocery items, the margins are gross thin in comparison to trendy merchandise retail format such as departmental stores. In case of supermarkets, which are usually based on DIY (Do It Yourself) or self service concept, the staff cost is less in comparison to departmental stores. But in case

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of departmental stores, the other operating expenses such as rentals, sales promotion expenses are somewhat higher.

Balance Sheet

After the profit and loss account, the balance sheet is prepared. There are many terms which are commonly used and are part of balance sheet of the business. It is the statement of assets and liabilities of the business. A simplistic view of the Balance Sheet is given below:

Liabilities		Amount (in Rs)	Assets		Amount (in Rs)
Capital	50		Fixed assets		
Add Net Profit	10		Land and store building	40	
Less drawings	08_	52	Less depreciation	4_	36
Long term liabilities			Current assets		
Bank Loans		28	Debtors		14
Short term liabilities			Cash and bank		10
Creditors		20	Merchandise items (stock)		50
Expense payable		10			
Total		110	Total		110

Balance Sheet as on 31.12.200X

Exhibit 6.2

Assets These are the economic resources owned by the business which are put into productive use to generate further resources.

Fixed Assets, such as building, are purchased with the motive of long term use in the business, usually more than one year.

Current Assets are those assets which are supposed to be converted into cash within a short span of time, generally not exceeding one year. The examples of current assets are cash, bank, stock, etc.

Debtors Debtors are the customers who have made purchase on credit. But as they are like to make payment in near future, they are the assets.

Liability It is the amount owing by one person to another, payable in money, or in goods or services in consequence to acquiring an asset, or service received, or a loss incurred or accrued. This mainly includes the following:

Capital Capital reflects the stake of owner in the business. The figure of net profit is added to the capital and losses are deducted from the capital. The drawings are also deducted from the capital. In case of company form of organisation, the shareholders are the real owners of the business and contribute towards capital.

Creditors Creditors are the suppliers who have given goods on credit to the retailer's business.

Expenses Payable Outstanding expenses such as salary payable, rent payable are the few examples.

Break Even Analysis

In addition to various financial concepts, it is important to have understanding about Break Even Analysis. It tells about how much sales is required to make sure that if a retailer is not making any profit, it is not

incurring loss either. It is the point of no profit-no loss. It has been discussed in Chapter 10 'Pricing in Retail'.

Financial and Operating Highlights of Chandigarh based Pink-City Home Collections—a Multi-Store Retail Chain (A hypothetical example)

Operating Highlights

- Market position in home furnishing and handicraft sections strengthened further
- Substantial benefit accrued from national and international sourcing, and supply chain initiatives
- Further improvements to product ranges and choice as well as the customer shopping experience at both Home-Spell and Home-Decor
- Store networks expanded and further long-term growth opportunity remains
- Strong operating cost control achieved

Financial Highlights

- Sales up by 15%, totaling to 5.2 crores from 4.5 crores in the financial year 2007, with like-for-like sales up by 18% at Home-Spell and 8.2% at Home-Decor.
- Gross margins increased by approximately 6% and 8% at Home-Spell and Home-Décor, respectively.
- Operating expenses up by 9% of which approximately 5% are accounted for by inflation
- Operating profit up by 10% to Rs 47.3 lacs (from 43 lac in 2007) with a growth of 16% at Home-Spell and of 10% at Home-Decor.
- Profit before tax up by 10% to Rs 33 lacs (from 30 lacs in 2007)
- Profit after tax up by 12% to Rs 22.4 lacs (from 20 lacs in 2007)

Exhibit 6.3

Main Retail Specific Performance Measures

The following are the problems and challenges by faced by the retailers during the management of retail operations:

- 1. Frequent stock-out situations
- 2. Over-stocking resulting in piling up of the obsolete inventory with each passing day, forcing retailers to offer huge mark-downs on the inventory.
- 3. Inability to make optimum utilisation of resources including human, resulting in low profitability.
- 4. Increasing high operational costs.
- 5. The merchandise assortment plan is not based on reliable information.

■●■ Ratio Analysis

It offers solution by effective benchmarking and as effective performance and control measure. Ratio analysis is one of the measures adopted in retail business also.

First of all it is important to have some idea about the concept of ratios. Ratio tells about relationship between two variables. The variables belong to sales, financial, inventory and other operational aspects. Usually variables are taken from profit and loss account and balance sheet. These ratios indicate about the financial and operational performance of the retailer. There are certain performance standards in

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each industry and retail business is not an exception. By comparing our performance with these standards, we can judge our own performance. Some aggressive retailers can set their own standards. Many parameters vary according to type of the retail format. The performance standards of supermarket will be different from those of lifestyle retailer.

Dipstick Parameters

As retail has its own peculiar features, an attempt has been made to explain the concept of ratio analysis in retail with the help of Dipstick parameters. These parameters are usually divided into four categories:

- 1. Customer Transactions
- 2. Stock
- 3. Space Productivity
- 4. Staff Productivity

Customer Transactions Retailers generally ponder over many questions in a routine manner—(i) whether the prospective shoppers coming to the store getting and buying what they actually ask for? (ii) what is the average value of purchase? (iii) average number of transactions during an hour or day and so on. These also indicate about the impending season and help in evaluating the effectiveness of promotional programmes or deciding about the new promotional programmes.

1. Customer Conversion Ratio It is relationship between the number of Sales Transaction and the total number of prospective buyers entering the store.

Customer Conversion Ratio =
$$\frac{\text{Number of Sales Transactions}}{\text{Total Number of Foot Falls}} \times 100$$

If the customer conversion rate is low, then it is a poor reflection of effectiveness of merchandising (including visual merchandising and promotional measures, personal selling, etc.)

2. Transactions per Hour It tells about the number of sales transactions taking place in one hour on an average for a specific period.

$$Transactions per Hour = \frac{Number of Sales Transactions}{Number of Store Hours}$$

Transactions per period are calculated for a specific time period also, such as daily, weekly or monthly basis. This will indicate about changes due to season or arrival of new merchandise. If it is calculated on the basis of different parts of the day such as morning hours, evening hours, it can help in adoption of pricing tactics such as different discounts for different parts of the day so that parity of sales can be brought during different parts of the day. Usually, the big retailers are in a better position to adopt these measures. These discounts are sometimes announced in the store. Retailers take help of technology such as specific softwares to decide about the mark-downs to decide about discounts offered during "Happy Hours".

3. Sales per Transaction It is also termed as Ticket Size.

Sales per Transaction (or Ticket Size) =
$$\frac{\text{Net Sales}}{\text{Number of Sales Transactions}}$$

It tells a retailer what is the quantum of average transaction (in Rs) for a particular period. It also helps in measuring the productivity of the sales staff also. If the sales per transaction is high, it indicates the efficiency and adeptness of sales staff. It also indicates the selling skills of employees to sell higher end items to the customers.

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4. Sales Returns to Net Sales This is the relationship between sales returns and net sales.

Sales Return to Net Sales =
$$\frac{\text{Sales Returns}}{\text{Net Sales}}$$

This indicates the degree of satisfaction of customer with the merchandise quality and pricing. If it is getting higher day by day, it gives an indication to have a relook at the merchandising and pricing policies. There is need to analyse the competitive scenario also.

Stock Related Parameters Inventory is the merchandise items held by a retailer in the stock to meet the demands of the customers. The type of merchandise varies according to the nature of retail. Various measures indicate about the overstocking or under-stocking positions in different categories or even in SKUs.

1. Average Stock Investment Period

Average Stock Investment Period =
$$\frac{\text{Average Inventory}}{\text{Daily Average COGS}}$$

The ratio indicates how long the stock would last even if no further purchase of merchandise is made. The investment period helps managers to manage their liquidity position or cash flows. If the average period is too high in comparison to its competitors, it means that movement of inventory is slow. The money struck in inventory is also high and retailer Interest cost may also increase. The chances of obsolescence of merchandise are also higher.

The retailers should be careful to make the movement of steady stock, even by marking down the prices so that newness of the merchandise items can be maintained. This is specifically applicable in case of fashion items or perishable items.

2. Sales to Stock Ratio This tells relationship between net sales and average cost of inventory.

Sales to Stock Ratio =
$$\frac{\text{Net Sales}}{\text{Average Cost of Inventory}}$$

Sales to stock ratio gives an idea how much is the sales is done as a percentage of average cost inventory during a given period.

3. Average Selling Price The average selling price is the average realisation from an average unit of merchandise.

Average Selling Price (in Rs) =
$$\frac{\text{Total Values of Good Sold}}{\text{Total Quantity Sold (in units)}}$$

This is specifically useful in cases when the merchandise items are purchased at a single price or in a narrow range and disposed off at a wider range of prices. This may happen in case of off discount retailers which purchase a variety of merchandise in a lot and it is really difficult to work out individual purchase prices of items. These merchandise items are sold at different prices and average selling price is arrived at by the above formula. It can be applied in case of other retailers also.

4. Stock Turnover

$$Stock Turnover = \frac{Net Sales}{Average Inventory Cost}$$

Alternatively,

$$Stock Turnover = \frac{Cost \text{ of Goods Sold}}{Average Inventory \text{ at Cost Price}}$$

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This ratio reflects how many times the retailer has been able to rotate in a year on an average. In this ratio, the inventory can be taken at the retail value. Retailer will be able assess how the merchandise is picking up at the store in relation to its monthly sales and the changes in the inventory levels. A lower inventory turnover implies poor sales and excess inventory. A high ratio means healthy sales and effective buying.

5. Gross Margin Return on Stock (Inventory) Investment (GMR0II) This ratio indicates how much margin is earned in comparison to the cost of inventory.

$$GMROII = \frac{Gross\ profit}{Average\ Cost\ of\ Inventory} \times 100$$

This gives an idea about the viability of the business. Generally, gross profit margins on food and grocery items are lower than apparels or fashion items.

Suppose the cost of inventory (can be COGS also) is Rs 5,000 and sold for Rs 8,000. The gross margin is Rs 3,000. Then, the GMORII can be calculated as under:

GMROII =
$$\frac{3000}{5000} \times 100 = 60\%$$
.

6. Shrinkage to Net Sales Shrinkage to net sales ratio gives an idea about the losses in retail business.

$$Shrinkage \ to \ Net \ Sales = \frac{Inventory \ as \ per \ Books \ of \ Accounts - Actual \ Inventory}{Net \ Sales} \times 100$$

Shrinkage is unbilled or unaccounted reduction in the value of inventory. It has become a big problem for the retailers and has profound impact on the profitability of retailers. For any average retailer it can be somewhere between 0.5-3%. The regular stock checking and auditing is important to evaluate amount of shrinkage.

7. *Product Category as a Percentage of Total Store Sales* This ratio gives an idea about the contribution of product category to the total store sales.

Product Category Sales as a Percentage of Total Store Sales =
$$\frac{\text{Total Sales of a Product Category}}{\text{Total Sales of the Store}}$$

This formula can actually help in space allocation. It also helps in comparing the category sales with those of other product categories in the store. It helps in the determining categories, assigning category roles during the process of Category Management.

8. Sell Through Analysis

Sell Through (in percentage) =
$$\frac{\text{Units Sold}}{\text{Units Sold} + \text{Current Inventory in Hand}}$$

This analysis helps in inventory management by identifying the movement of inventory.

Space Related Parameters As the selling space is very costly for a retailer, it is natural for a retailer to try to get optimum sales from the available space. The store layout and designing is done in the manner so that retailer is able to get maximum sales. Because it is difficult to reduce rentals once the lease is in place, the focus of retailers is to focus on how to utilise the space.

The various ratios adopted by the retailer to get idea about the selling space are given as under:

1. Sales per Square Foot It is the ratio of net sales to the selling space in square feet.

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

The data about sales per square foot helps (i) in making purchase budgets (ii) determining rentals and (iii) calculating or assessing investment requirements. Generally, a retailer would set its own benchmarks for sales per square foot by taking data from industry. He calculates the sales per square feet of the whole store and then calculate sales per square feet of each department. Thereafter, he compares how each department is performing in relation to the store itself.

- 2. Sales per Linear Foot of Shelf Space In addition to sales per square foot, the data about sales per linear foot of shelving is also used in food and grocery categories to get better idea about the utilisation of store space. This information can be applied in other product categories also. It can help in better decision about shelf space allocation for different product categories.
- 3. Percentage of Space for Department This is about space allocation. It can be calculated as

$$Percentage of Space for Department = \frac{Space allocated to each Department}{Total Selling Space}$$

This can be compared with the sales volume given by each department so that the process of allocation of space can be rationalised.

Staff Productivity As retail organisation is primarily dependent upon human resources for its various operations, success of retail operations depends upon the productivity of human resources. There are many ratios which measure the productivity of human resources.

1. Sales per Employee It is the ratio of net sales to the number of employees.

Sales per Employee =
$$\frac{\text{Net Sales}}{\text{Number of Employees}}$$

Usually, the full time employees are taken into consideration. It is also used to set the sales target for the mainly front end sales employees.

2. Store Space Covered per Employee It is the ratio of total retail space to the total number of employees.

Store Space Covered per Employee =
$$\frac{\text{Total Retail Space}}{\text{Total Number of Employees}}$$

Usually, the full time employees are taken into account. As per one standard, around 250–300 sq ft area is covered by an employee on an average. It is further dependent upon many factors like level of services offered and efficiency of store employees.

In addition to store space covered by an employee, it can be in terms of number of customers served by an employee also. It again depends upon the nature of business also. In case of food and grocery where average amount of purchase by most of the customers is usually in a certain range, the number of customers served by an employee becomes important.

3. Staff Productivity Staff Productivity is discussed in context of Cost to Company of all the employees of the retailer organisation. Cost to Company includes all benefits and costs of the employees offered during process of employment. In case organisation is offering subsidised lunch to the employees, amount of subsidy bore is also part of cost to company. It is calculated as

$$Staff\ Productivity = \frac{Sales}{Employee}\ or\ \frac{Sales}{Working\ Hours}$$

This gives an indication to retailers—how many people can be employed while remaining profitable.

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■●■ Benefits for Analysing the Operational and Financial Measures

The various benefits which are obtained by the analysis of operational and financial measures are given as under:

- 1. In addition to make short term and medium term planning, the inter-firm and Intra-firm analysis can help the retailer to make strategic plans.
- 2. Various inventory management measurements help in day to day operations and avoiding out of stock situations.
- 3. They help in making better Buying plans.
- 4. The different measures such as ratio analysis become basis for making reports by the management.
- 5. It helps in better vendor management.
- 6. They help in getting more productivity from staff.
- 7. They help in increasing the profitability of the retailers.

[Summary]

- > Trading and profit and loss account actually gives an idea about the profitability and financial health of the retailer. There are different stages in income statement which depicts different dimensions of profit, gross profit, operating profit, profit before tax and profit after tax.
- ➤ Balance sheet which is statement of assets and liabilities of business evolves continuously as the transactions take place in the business. Assets are generally fixed or current in nature. Liabilities are long term and short term. It is valid only for a specific point of time. It gives an idea about financial health of the business.
- ➤ As per Dipstick parameters, there are four dimensions to calculate the performance of retail business—Customer Transactions, Stock, Space and Staff productivity. Customer transactions include customer conversion ratio, transactions per hour, sales per transaction as the main ratios.
- In stock related parameters, average stock investment period, average selling price, stock turnover, gross margin return on stock investment, shrinkage as a percentage of sales, product category as a percentage of total store sales, sell through percentage are the main parameters.
- As retail has a service orientation, the staff related parameters are crucial to the success of retailer. Sales per employee, store space covered per employee and staff productivity are the main parameters. Sales per square foot, Sales per linear foot of shelf space, space allotted to a department as a percentage of total space are the main space related parameters.

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-{Revision Exercises}

■ ■ Very Short Answer Questions

1. What is gross profit?

- 2. What is difference between gross profit and net profit?
- 3. What is COGS? How is it calculated?
- 4. What are operating profits? How are they calculated?
- 5. What is balance sheet? What is its utility?
- 6. What is difference between fixed assets and current assets?
- 7. What is ticket size?
- 8. Comment upon store space covered per employee.

Short Answer Questions

- 9. What are the main problems and issues which are faced by retailers?
- 10. What is ratio analysis? How is it beneficial for retail business?
- 11. What are the various ratios relating to customer transactions?
- 12. What is the main ratios depicting the productivity of Staff?

Long Answer Questions

- 13. What are the Dipstick parameters? Discuss them in context of stock and space.
- 14. What are the final accounts? Discuss them in context of food and grocery or apparel retailer assuming hypothetical figures.

CHAPTER

7

Store Location and Site Analysis



After studying this chapter you should be able to understand

- ✓ the concept and importance of site and location for a retail store
- ✓ the identifiable trends and important factors in retail location
- ✓ the types of retail locations and their relevance for different retailers and conditions
- ✓ the process and techniques involved in decision making

Introduction

During recent years, there was scramble for acquiring retail locations by all retailers, big or small. We can see that through expansion plans of many retailers. Future group plans to reach 24 million sq ft of retail space by mid-2011, up from 8.6 million in 2008; Shopper's Stop also plans to increase its retail space to 2.7 million sq ft from current 1.3 million sq ft.; Raymond is planning to open 50 more tier II and III stores; Tata Group's retail arm, Trent, which operates westside is planning to open 8-10 stores every year. All the above expansion plans of big retailers in coming years, directly or indirectly, are related to real estate or location decisions.

Though currently, consumer spending and financials of many retailers are not good enough to support expansion of their plans, amidst these big plans the time for realty check has actually come. Retail business is facing rising costs and shrinking profit margins. Location as the real estate cost is the main operating cost, that includes costs in the form of rentals or investment, or the acquisition cost of property. Location and catchment area have naturally come under focus of a retailer as these are linked with growth and profitability objectives of the retailer.

It is important that retailers should survey the trading area, analyse consumer behaviour and competition therein before opening new stores.

■●■ Location and Site

Sometimes, the terms location and site are used interchangeably. Location is a wider term and refers to the trading area where most of the customers of the business originate. Site refers to a specific place, building or part of it which meets the basic requirements in terms of size, infrastructure, etc. and from where trading is to be carried out. If a market or a mall is taken as a single location, the sites of the different stores will be different, some may be located opposite main entrance, some at the backside, some on different floors, some near some landmark.

It is important for the retailer to specifically serve the needs of customers and meet its strategic objectives including financial ones in an effective and efficient manner. Now retail location decision is not confined to physical locations alone. Virtual retailing is technically independent of any physical location, but in that case, supply chain networking locations become crucial for the success of the retail business. In the ensuing discussion, we will focus our discussion only on physical location.

Trends in Development of Retail Locations

The various trends spotted in retail can be described as under:

Emergence of One Stop Shopping One stop shopping with something to offer to each member of family has been emerged so that it becomes destination location for the whole family. It includes multiplexes, food courts, game parlours, etc which need lot of space.

Increasing Supply of Retail Space Development of retail space in the form of malls and market places in the new residential areas has increased options before the retailers. The decline in real estate prices in late nineties prompted many real estate developers like DLF, Ansal to come up with new properties.

Long-Term Leasing of Retail Space During last few years, leasing has become a cost effective option. Purchasing property at prime locations has become out of reach for many retailers due to high property prices. Entry of established retailing chains has given further impetus to the process.

Migration of Population to Suburban Areas The major Indian cities show an increasing population shift to the suburban areas from within the cities and from rural areas also. USA witnessed trend of shifting population to sub-urban areas after World War II. The market in the suburbs has a high potential for the development of shopping malls.

Importance of Location and Site to the Retailer

For a retailer, this is another important P of marketing that is place. In addition to distribution, this P signifies property also. It has been rightly said by Steven Goh, Retail Management Guru and Director of Retail Asia Publishing—Location is all about positioning.

In the context of Indian retail scenario, the retail location alongwith real estate has become a very important decision. In the years to come, organised retail is likely to attract an investment of USD 20 bn, 60% of which investment will go towards real estate.

Important aspects of retail location are being discussed under in a more specific manner:

Financial Viability Success of retail as a trading activity depends upon the number of customers. So, it is desirable for a retailer to be located at a place from where it can get maximum customers. Deciding retail location is a long term decision as it involves fixed investment and long term commitments for a retailer, whether it is for acquisition of property, furniture and fixtures or entering into lease agreements. This becomes more important in case of big box format retailers.

As a Part of Retailer's Strategy As discussed earlier, location is about positioning. Location speaks a lot about the type of the store, its target audience and the merchandise it stocks. It facilitates formulation and implementation of the retailer's strategies. Moreover, retail store situated at the right place gives strategic advantage to the retailer.

Out of all the elements of marketing mix, this is most difficult to be changed. Retailers adopt different pricing and promotional tactics in a routine manner, change their merchandise mix but decision about location is always strategic.

Trade off between Sales and Rental Cost Deciding about right retail location is always a risky proposition and thus, it poses a challenge before the retailer. Primarily, trade-off decision between cost and location for any kind of retail venture is to be taken while selecting a location. Sometimes location is found good, but the cost stands as a barrier.

Let us discuss it further. Though a store in peripheral areas may have low rental cost, but costs associated with transportation of merchandise, advertising, etc. are high and liquidity position may not be satisfactory. The sales can be lower and profitability may not be satisfactory. On the other hand, store in a good location may increase rental cost, but it may be offset by higher sales volume and low per unit operating cost.

Modern retail players such as Future Group, Reliance, Aditya Birla group, Subhiksha and Vishal Retail went on expansion spree creating footprints across the country in different formats. Many other retailers such as 6Ten, Wadhawan Retail, LM365 too joined them. But in a very short span, many retailers struggled with their sales, shutting down the stores and laying off staff in hundreds.

Future Group relocated one Big Bazaar Store in Ahmedabad and reformatted another. Similarly, Raymond's closed down three stores, Spencer's relocated its 40 outlets in profitable areas. According to Thomas Verghese, this happened due to wrong location decision or committing too high rentals in a race to open more stores.

Now many retailers are doing a reality check and consolidation may also result.

Reference: www.economictimes.indiatimes.com accessed on April 15, 2009

Types of Catchment Areas Catchment or Trading Area can be divided into three components:

Primary Trading Area The primary trading accounts for more than half of sales revenue or customers. It is in close proximity of the store.

Secondary Trading Area It is located next to Primary Trading Area. It usually accounts for 15-25% of clientele.

Fringe Trading Area It accounts for rest of the sales of retailer. Some shoppers travel long distances to make purchases from a particular store.

This categorisation is only indicative in nature and it may not show any circular pattern. Development of catchment area actually depends upon many factors such as natural settings, pattern of housing, travel time, location of competing stores, store type and size. Moreover, it is dynamic and changes as per needs and buying behaviour.

Till few years back, retail stores in Sector 17 and Sector 22 in Chandigarh used to enjoy patronisation from all parts of Chandigarh Tricity (including Mohali and Panchkula) because of the central location of these sectors. But, with the development of markets across different Sectors of Chandigarh, Mohali and Panchkula, the catchment area of stores in above sectors has actually shrunk.

Important Factors in Retail Locations

Let us consider different factors which are important for deciding about location:

Type of Retail Format and Merchandise Depending upon the kind of merchandise the retailer likes to sell, the location can be decided. Most of the times, retailers are guided by their own experience and profit motives to decide about the merchandise they would be selling. In case of food, most customers want convenience in terms of proximity to home. When it comes to clothes, the consumer may want to compare the wares with the competition and thus, may want a store close to other stores.

Convenience or Staple goods are generally low priced with low margins and purchased frequently by a wide range of customers. These include fast moving consumer goods. They require easy access. So, proximity to place of residence is very important.

Speciality goods are unique. These can be higher in value but, purchase frequency is not very high. As choice is also involved, so customer does not mind travelling some extra distance to procure this type of product. Stores for these goods are located at high streets also.

Furniture, jewellery, kitchenware, fashion apparel are certain categories of goods found at a conventional market places. As the purchase amounts of these items are usually higher, customers would like to compare prices before making a purchase. Sometimes, retailers prefer to locate their stores dealing with the same product category and gradually a market become popular for that particular product category.

Sales Potential and Selling Space Requirements Sales Potential in the area under consideration is a very important factor while selecting a location. This decision is facilitated if data on demographics and demand pattern is available. A number of Indian research agencies such as NCAER, ORG-MARG and private consultancy organisations can provide such data to the retailers.

The retailers take into account the competition in the given area in order to ascertain profitability. The comparison with similar stores operating in similar locations becomes natural so as to have more realistic assessment of competition.

The simplest way to get an estimate of space requirements is by dividing desired sales volume by the average sales per square foot in the product category.

Selling Space Requirement It is calculated as per the following formula:

Selling Space Requirement (in Square Feet) = Target Sales ÷ Sales per Square Foot

It depends upon other factors also. Besides selling space, the provision should be made for office space, storage and other facilities. The future expansion plans and requirements should also be taken into account. A big store takes more inventories to fill and an empty looking store may not attract customers.

Going by the space requirements of modern retail formats for visual displays, aisles, variety of merchandise, the sufficient space may not be available in the downtown areas, so retailers may prefer out of town locations or malls.

Customer Profile and Catchment Area The customer traffic in an area gives some idea about the sales potential, but it depends upon nature of retail business. It may not necessarily translate into a lot of customers for all types of retailers. The retailers always want to be located where accessibility by their target markets is good.

The information about demographic profile of the people residing in a particular locality is crucial for success of retail. How do our customers appear like? Do the location of the store match with the profile of our target customers? Such questions need continuous pondering. Research of the area is a must before making a final decision. Retailers can go through local newspapers and speak to other retailers and businesses in the area. They should not rely on a single source. Data can be obtained from Census Bureau or Trade Associations like FICCI, PHDCCI, journals, etc.

Accessibility, Visibility and Traffic The number of people walking or driving past the location is also an important reason for locating stores at high streets. Food and beverage retailers such as Caffe' Coffee Day, Barista may prefer locations like highways, educational institutes, hospitals, etc.

Accessibility by public transportation adds value to the retailer's outlet like the malls located near the metro station at Connaught Place in Delhi and Sector 17 Plaza in Chandigarh, near the bus stand.

About parking, retailers are advised to make provision for 5 parking spaces per 1,000 square feet of retail space. In peripheral locations, the parking is not much of a problem. Centra Mall in Chandigarh has been facing a lot of problem on account of inadequate parking since its inception.

While considering visibility, the location is looked at from the customer's point of view. It is highly desirable that store, signages can be seen from main traffic flow. The better the visibility, the less is the expenditure on advertisement. A retail store located in a peripheral area needs more marketing than a shopping store located in the downtown area of the city.

Zoning and Planning The retailer should understand all the policies, procedures, rules of the municipal and other authorities before entering into any kind of agreement relating to store location. Talking to local authorities and seeking clarities is crucial. For example, Nanz Store in Delhi had to face lots of hurdles on this account. Few years back, Haryana Government launched a demolition drive for unauthorised construction of shops in the residential areas. Supreme Court has ruled stringent norms for signages at the national highways.

Competition from Nearby Stores Other businesses in prospective location can actually support or upset your retail plans. If the nearby stores deal in complimentary goods, they may actually support the retailer's business. For example, a high-end fashion boutique may not be successful next door to a discount variety store, but it may perform well near a beauty shop.

NCR and specifically New Delhi is governed by a "Master Plan", which has been developed and regulated by Land and Development Authority, Delhi Development Authority, New Delhi Municipal Corporation and Directorate of Industries.

The master plan has provided for designated pockets for retail development, which is based on the overall plan for each zone or micro market within New Delhi. However, there has been lack of supply of land which could be utilised for retail development to meet the demand from increasing population base. To meet the huge demand generated from the increasing population in the city, more retail outlets came up leading to unplanned development. Most of these retail markets have come up in either "residential" or "all dora land"—zoned or otherwise—within the city. This is in direct conflict with the master plan and zoning for the city.

Reference: www.economictimes.indiatimes.com accessed on 12.11.2008

Exhibit 7.2

Cost and Supply Chain Considerations Besides rentals, consider all costs involved while choosing a retail store location.

- Payment for lawn, common facilities, utilities, security, upkeep, municipal taxes, etc.
- Additional marketing efforts required in case of a remote location to attract customers
- Cost incurred to remodel and refurbish the store as per needs of the retailer

Per square feet per day (PSFPD) is the term used to reflect sales efficiency of sales in terms of the store in relation to the area. This can be compared with rental cost per square feet. In general, the PSFPD to make retail business viable is Rs 35-40 in case of food and grocery stores. Rental cost to sales ratio is another term related with cost of real estate to a retailer. It depends upon the format also.

There is usually a difference between current requirements and future requirements of the space in retail business. To check affordability of paying rent in new retail business, the comparison with similar businesses becomes natural.

Supply chain is one of the most important considerations of the location. Subhiksha generally opens many stores in a city so that its supply chain becomes viable. A hypermarket can not be conveniently located in crowded downtown areas of the city because of the fact that it is difficult for the transportation vehicles to enter into these areas to unload merchandise.

Personal Factors Personal preferences such as type of store and location the retailer feels comfortable at, travelling time and distance, rapport with the owner of retail property can also be few important considerations while deciding about locations.

Important Retail Locations

In terms of the location, retailers has following options at their disposal:

- 1. Central Business Districts
- 2. Destination Locations
- 3. Standalone Locations
- 4. Convenience Locations

Let us discuss all these locations one by one.

Central Business Districts These are also termed as down town areas or high streets (term popular in UK). The earliest retail shopping areas were unplanned clusters of stores that evolved in city centres. These types of locations have an array of shops and these are the hubs of city's main commercial and

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transportation activities. The offices are also located on the high streets. Though heavy traffic flow, both public transport and pedestrians, on the high streets is witnessed, the biggest advantage is the easy access that they provide to the shopper. Cannaught Place, Chandni Chowk, Karol Bagh in Delhi; Bandra, Kemps Corner, Colaba Causeway, Linking Road in Mumbai; MG Road in Bangaluru; Chowringee, Park Street, New Market, Burabazar in Kolkata; Anna Nagar in Chennai; MI Road in Jaipur; Chaura Bazar in Ludhiana are few examples of high streets across different metro cities. Almost every city, worth its salt, has its own one or more high street/s and down town areas.

With increase in population, overcrowding of high streets was inevitable, and the suburbs became a magnet for residential and many commercial projects. Urban India's earlier high streets are now mainly office areas, with very few residential buildings. Suburbs have also triggered a trend in retailing with new retail outlets mushrooming in suburban areas, near residential locations. Colaba was the major shopping district in downtown Mumbai till a couple of decades ago. However, with residents moving northward, Linking Road in Bandra has transformed itself as a shopping arcade.

Once challenged by malls, the high streets are now showing a comeback with efforts from municipal corporations and business associations. There may be more freedom and fewer rules for the business owner. However, the lack of parking is generally a big issue for downtown retailers. Usually one can find many old, well-established specialty stores doing brisk business in downtown areas.

Secondary Business District It comprises of markets developed across major intersection or populated pockets of the cities and generally have neighbourhood as catchment area. It develops in response to increasing population of the area as well as overcrowding and distant location of central business districts. Kamla Nagar, Sarojini Nagar, Lajpat Nagar in Delhi can be taken as few examples of secondary business districts.

This classification can be relative in case of a specific city.

Leading Shopping Streets in India:

Khan Market, Delhi: Recently ranked as the costliest retail location in India and 24th the worldover, it mainly caters to high-end customers, but has inherent appeal to casual visitors also. The market has diverse mix of premium and lifestyle retail brands, book stores, fashion boutiques, cafes and arts stores.

South Extension I & II: It is the hub of South Delhi's high street retailing. It promises an international shopping experience and offers designer wear, quality clothing, best footwear, etc. It is spotted with many eating outlets, bars and discotheques. Few prominent brands like Benetton stores, Tommy Hilfiger, Levi's, Espirit, Teksons Bookshop, Nalli Sarees, Tanishq, Mehrasons Jewellery store are present in the South Ex.

Colaba Causeway: This dynamic market lies parallel to the Gateway of India. It is frequently visited by tourists. It has large number of shops, cinema halls, eating places and hotels. Main brands present are UCB, Nike, Adidas, Reebok, Arrow, Lee, Levi's etc.

Connaught Place: Built in 1931 on the lines of Royal Crescent in Bath, England, it is capital's most popular shopping centre. It is one of the costliest shopping centres in India. It is also India's second largest financial, business and commercial centre. It houses many handicraft emporiums and eating points like TGI Friday, Nirula's etc.

Linking Road, Mumbai: Extending from Bandra to Santa Cruz, it is the most expensive retail patch in Mumbai. It offers cheap Chinese products to international brands in a range of departmental stores, brand outlets, street-side carts and regular shops. The retail outlets found are GAS, Metro, Adidas, Nike, Reebok and OSIM.

Brigade Road, Bangaluru: It is the biggest commercial centre and shopping area of Bengaluru, known for high-end brands, sporting goods, fashion wear, upmarket pubs and restaurants. It houses the biggest established stores of popular brands. The 9000 sq ft Levi's Square on this high street is one of the biggest flagship brands in India.

(Contd)

Begumpet, Hyderabad: Hyderabad has a culture of home grown retail, which is well represented in India. It is the hub for silk sarees with stores such as Kala Kunj, Saree Vatika, Meena Bazaar, Nalli Sarees to name a few. In addition, Shopper's Stop, Pantaloon and Lifestyle provide a range of merchandise and experience to the shoppers.

Park Street, Kolkata: Often referred to as 'Food Street' and "The Street that Never Sleeps" with a myriad of restaurants, pubs and nightclubs such as Trinca's, McDonald's, Oasis, KFC, Peter Cat, Olympia, Shisha, Someplace Else to name a few. Park Centre offers a range of apparel, cosmetics and electronic gadgets.

T Nagar, Chennai: Thyagaraya Nagar is primarily a commercial locality in Chennai. The real estate prices are extremely high in this locality. One of markets here like Pondy Bazaar is a major attraction with lot of discounts and price reduction offers during the festive seasons.

FC Road, Pune: This is the fashion hub and the most exciting hangout for the youth in Pune with students being the main clientele.

Reference: Retailer, November 2008, p. 72-74.

Exhibit 7.3

Destination Location A destination location is typically a store off the high street, which provides the entire gamut of merchandise, or a one-stop shop for the shoppers. Better known as the one-stop shop, a destination location is a store location that provides the entire range of merchandise and services like entertainment to the shoppers.

Malls Shopping mall is the best example of a destination location. The mall developers are supposed to provide basic facilities like parking, security and maintenance, etc. Shopping malls tend to strategise tenant mix so as to serve as a one-stop location and enhance customer experience. Thus, most of the shopping centres are not destination locations. There is a lot of direct competition among the retailers as most of them deal in the same merchandise. Shopping centres here usually cover smaller areas and so the average size of shops is proportionately smaller.

With retailing industry taking a proper shape in India, a number of mall projects of international standards are in the pipeline. Best examples of modern Indian malls are the Crossroads in Mumbai, Ansal's Plaza in New Delhi and Fun Republic in Ahmedabad. DLF is developing Mall of India in Gurgaon.

Conventional Shopping Centres In Delhi, the Basant Lok shopping area at Vasant Vihar is built in the form of a strip centre with multiple shops under an open canopy. Proving that (shop) size is not important. The centre covers almost every category and range of merchandise. It also makes room for entertainment and food areas. Bandra's Elco Market in Mumbai is modelled on a mall of sorts and has a focus on clothing and accessories. The Amrutha Mall in Hyderabad is a traditional shopping centre with an emphasis on apparel, watches, music and accessories. A small entertainment centre and a restaurant, there also provide both entertainment and the shopping experience to its customers.

Free Standing Locations This type of retail location is basically any stand-alone building. Though the traffic may be low, but sales per customer can be higher. Its features are:

- More flexibility about operating business.
- More marketing efforts required to get customers inside the store.
- It will probably have ample parking and the cost per square foot will be reasonable.

The roadside eateries or dhabas situated alongwith main roads and national highways in India are the examples of free standing locations. Intergold stand-alone stores have low walk-in traffic, but its average revenue per customer is usually very high.

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Convenience Location In India, the Kirana shops are the best example of convenience locations. Catering to the daily needs of the customers, there are millions of convenience stores. As most of these stores are situated in residential areas, the rental cost to sales ratio is very low in these stores.

Nowadays, operating retail business from home is also becoming popular. This business is mainly based on power of networking. The advantage is the feeling of being an entrepreneur who can manage home alongwith generating some income. Generally boutiques, artificial jewellery, beauty products are merchandise items dealt in from home.

Besides these, the other forms of retail locations include store-in-store. Many retailers are going for these kinds of options with other retailers to sell complimentary goods.

Mumbai's Tryst with Luxury: Palladium

Key Location Features:

Located on the high street Phoenix (Central Mumbai), positioned well within various fashion formats

Targeting high end customers seeking luxury brands

Mumbai's first luxury mall having built up area of 2,00,000 sq ft

Direct access from Senapati Bapat Marg Integrated with Shangri-La hotel lobby Attractive and expanding catchment

Intelligent zoning

Dedicated car parking with each floor accessible from car park

Tenant Mix: 55-60 stores

Ground Floor: Powerhouse brands

First Floor: Men's apparel

Second Floor: Women's apparel, jewellery, accessories and cosmetics **Third Floor**: Luxury home furnishing, Indian counture, luxury car showroom

Reference: Images Retail, August 2008, p. 38.

Exhibit 7.4

Bigger, better, bolder—India's retail tale can't get hotter than this. In fact, for the first time, three Indian cities have joined the elite list of top 10 retail locations in Asia. Leading the pack, Delhi's Khan Market has emerged as the fourth most expensive retail high streets across the Asian market, while Mumbai's Linking Road and hold your breath—Chandigarh's Sector 17 market occupy the eighth and ninth position, respectively.

Overall, Hong Kong's Causeway Bay is the most expensive retail street in Asia with Rs 65,000 per sq ft. It is followed by Tokyo's Ginza at Rs 38,000 per sq ft and Gangnam Station in Seoul at Rs 22,000. The ranking compares only the most expensive high streets in each of the Asian cities.

According to a Cushman and Wakefield report made available exclusively to Sunday ET, the Mumbai and Delhi markets still maintain their position as best markets for retailers across categories and witness consistent demand from retailers due to the double digit growth in revenues achieved across brands within the high street markets.

Prime high streets in India provide better revenue for retailers and will continue to be viewed favourably despite the rapid growth in mall development across cities.

Says Rajneesh Mahajan, Director (Retail) Cushman and Wakefield India: "With a number of malls failing to provide professional services, they have not been able to meet retailers' expectations in terms of footfall and conversions.

Most retailers still prefer to take position on high streets, where they are assured better footfalls. This continues to put pressure on the rentals as the available space is not able to meet the consistent demand.

Reference: economictimes.indiatimes.com accessed on January 16, 2009

Process of Retail Location and Site Selection

Selection of a retail location may consists of only a few steps, but it takes a lot of efforts in terms of time, visits to different places, consultations, etc on the part of the retailer as a wrong decision can prove to be very dear in the long run. The important steps in the process actually form a hierarchy of decisions. The different steps involved in the process of deciding about retail location have been discussed as under:

Selection of a City It may include decision about selecting the Region and the State, and then alternative cities. The following factors are important for the selection of a city:

- The size of trading area such as Delhi whose big markets attract people from far of places
- Total purchasing power and its distribution
- Profile of population and growth rate of population
- Trade potential and nature of competition are important factors for choice of trading
- Total retail trade potential for different lines of trade is also crucial. A city may become specialise in certain lines of trade. Moradabad has become important location for brassware products, Ambala for fabrics, Agra for footwear and so on.

Every big retailer has its priorities and strategies about location to open their stores. A lifestyle retailer may decide that it would open its stores across metro cities like Mumbai, Delhi, Bangalura, Kolkata, Chennai and Hyderabad, before it make forays into other cities. A food and gross retailer, Margin Free, has significant presence in Kerala where it enjoys early mover advantage. It opened many stores in smaller towns as the cost of real estate is less in these towns. Subhiksha has single format that is convenience store and it generally prefers a city where it can operate many stores across different parts of the city to get optimum benefit of supply chain capabilities.

Deciding about Trade Location in the City Once the city or some geographic area is selected, the choice narrows down to a trading area in the city. Evaluation of the following factors is important at this stage:

Customer Attraction Power of a Shopping District or a Particular Store The location may be newly developed planned market or traditional market like Central Business District. Examples are Chandni Chowk and Connaught Place in Delhi. Now big retail formats such as hypermarkets and malls themselves are big attraction for the customers.

Product Lines Carried by other Stores and Number of Stores in the Area Sometimes markets are famous for a particular product line and have natural advantage over other places.

Availability of Access Routes, Public Transport There should not be traffic jam and congestion. The availability of transport also functions as lifeline for commercial areas.

Zoning Regulations Retailers should examine the plans of zoning commissions and municipal corporations regarding the development of shopping centres, residential areas and flyovers.

Direction of the Spread of the City Retailers should consider the direction of the spread of the city while deciding the location and city. They must consider Navi Mumbai and suburban areas which are growing at a faster rate in Mumbai.

Analysis of Alternative Sites Once the location is decided upon, the comparative analysis of alternative sites is done by taking into account the following factors:

Adequacy and Potential of Traffic Passing the Site The volume of vehicular traffic and pedestrian shoppers passing by the specific site should be assessed since they represent the potential customers.

Ability of the Site to Intercept the Traffic Following Past the Site The vehicular or pedestrian traffic moving past the site would be attracted only if it represents the segment the store is targeting. Space requirement, visibility of store and signages, parking facility are few of the important factors at this stage.

Complementary Nature of Adjacent Stores a store selling school uniforms would have greater potential if adjacent stores sell school books, stationery, etc.

Techniques Used to Assess a Trading Area's Demand Potential Entering a new region is not a simple exercise for retailers. There may be many entrenched competitors with similar characteristics and, therefore, the potential of that region needs to be assessed. Various statistical techniques that are used to assess an area's potential are outlined below:

Analog Approach This is also called the 'similar store approach'. Assume that Charagh Din, a single menswear store in South Mumbai, wants to open another branch. Given the enormous success of its existing location, it would like to find a location with a trade area with similar characteristics. Naturally, this would involve estimating the size and customer demographic characteristics of the current trade area and attempting to match the same with potential locations. Analog approach has three steps:

- Step one is customer spotting. For tracing demographic and socio-economic profile of a new area, one should pin down the density of customers in the primary, secondary and tertiary trade areas, encircling a potential location.
- Step two is assessing competitive information in the area.
- Step three involves matching the characteristics of the current store with the potential of new store locations to determine the best site.

However, finding such analogous situations is not so easy. The weaker the analogy, the more difficult is the site selection.

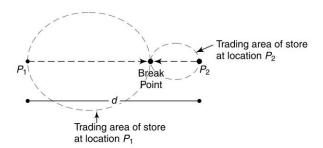
Multiple Regression Analysis This is the most popular method in defining retail trade area potential for retail chains with more than 20 stores. Multiple regression analysis work on the same logic as used in analog approach, but it is more objective. It uses statistics rather than subjective judgement to predict the sales for a new store. The initial two steps for multiple regression analysis and analog approach are the same. In the last step, however, a mathematical equation is built into match the new locations with the characteristics of the existing store. This imparts a degree of objectivity into the process.

Gravity Model There is always the possibility that the chances that a given customer will shop in a particular store or shopping centre increases with the increase in the size of the store or centre and decrease in distance or travel time from customers to the store or centre.

Reilly's Law of Retail Gravitation It defines two cities' relative ability to attract customers from the area between them. The larger the town, the greater is its ability to attract customers. Likewise, the greater the distance from town, the less likely a customer is to shop there. The law was developed by William J Reilly in 1931.

Break-Point (BP) =
$$\frac{d}{1 + \sqrt{p_1/p_2}}$$

where d is distance between two places, p_1 and p_2 are the population of two alternative locations or stores between which the distance exists; the answer will give the distance from p_2 —also called a Break-Point. Break-Point is also called Point of Indifference. It can also be defined as geographic breaking point between two locations at which shoppers are indifferent to shopping at either stores at both locations as equally attractive.



Let us discuss about break-point? For example: after leaving a store at p_1 you remember something that you wanted to buy; it just so happens that you are headed towards an alternative store p_2 . The break-point can be thought of as the point after which you would travel towards store p_2 instead of store p_1 because of its notional "gravity". This would happen sooner, for example, if store p_2 is an equivalent store but with greater square footage, suggesting that you are more likely to go to store p_2 for greater available utility. This notional gravity can be influenced by a number of things, but square footage is simple and found to be effective measure.

Huff's Model It tries to find out the probability that a customer residing in a particular area will buy at a particular store/shopping centre. The probability that the customer will shop at a particular place is multiplied by an estimate of the customer's expenditures to forecast the sales. This is done by the location analyst. Then all the estimated expenditures in an area are aggregated to estimate sales from the area. While arriving at the probability, the model takes into account various factors like travel time requires, size of the store or shopping centre and competing stores in the region.

The larger the size of the store/shopping centre in comparison to other competing establishments, the larger the probability of customer coming to the establishment. On the other hand, the greater the distance, the lower the probability of a customer visiting the store or shopping centre. Factors that count include the amount of time a customer needs to visit the store or shopping centre. If regular trips are required, then distance plays a major role.

Christaller's Theory It defines the central place as a centre of retailing activity such as a town or city. This theory argues that there is a hierarchy of central places according to the assortment of goods available. Small towns can usually support a relatively limited group of retailers, such as grocery stores, gas stations and convenience stores. People will drive longer distances to shop in cities with a large assortment of merchandise.

Technological Aspects Relating to Location Decisions Today, software packages are helping retailers not only in their locational decisions but in decisions regarding store sizing and floor-spaces as well.

[Summary]

- ➤ Location and site are two interrelated terms. Location refers to a trading area and site refers to specific place, building or part of it. They together decide about the economic viability, return on investment, strategic positioning. The location is not easily reversible and is trade-off between cost and sales.
- ➤ Depending upon certain criteria mainly proximity to store, there are three types of catchment areas- primary, secondary and tertiary. Primary trading area contributes more than 50% of sales, Secondary area around 20% and tertiary areas contributing rest of the sales.

Fundamentals of Retailing

- > Type of retail format, sales potential, selling space requirements, customer profile, accessibility, zoning norms, competition and real estate cost are the various factors to be taken into account to decide about the Location.
- ➤ There are four types of retail locations—Central Business District, Destination, Stand-alone and Convenience. Central business districts or down towns are conventional business areas in the city, Destination location such as malls or conventional shopping centres are specifically visited by the shoppers, Free standing locations are not connected with other shops, shopping centres, etc. Conveniently located stores cater to many daily needs of the customers.
- Increasing supply of retail space, emergence of one stop shopping and migration of population to suburban areas are the main trends in retailing.
- Analog approach, Multiple regression Analysis, Gravity Model, Reily Law of Retail Gravitation, Huff's Model, Christaller's theory are the main techniques used in deciding about the retail locations.
- The main steps involved in process of deciding about retail location include (i) selecting city (ii) deciding about trade location in the city (iii) analysis of alternative sites.

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-[Revision Exercises]

Very Short Answer Questions

- 1. What is a location in the context of retail business?
- 2. What is the difference between location and site?
- 3. What are different types of catchment areas?
- 4. How do retailers at convenient locations add value to the customers?
- 5. Discuss accessibility, visibility and traffic in the context of retail location.
- 6. What are the advantages of free standing locations?
- 7. Discuss trade off between sale prospects and cost in the context of retail decisions.
- 8. What is a secondary business district?

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■ ■ Short Answer Questions

- 9. How location is related to positioning of the retailer?
- 10. Discuss the importance of site and location for a retailer.
- 11. How the type of merchandise which retailer intends to sell affect the decision about retail location?
- 12. What is central business district? What future do you see of a retailer who is located in a business district, by quoting example from your immediate context, if possible?
- 13. Write a note on destination retail location.
- 14. What are main trends in the development of retail locations?
- 15. Discuss the competition as a factor in deciding about retail location.
- 16. What is Reilly's law of Retail Gravitation?

Long Answer Questions

- 17. Discuss the main factors which should be considered by a retailer while deciding about the retail location.
- 18. What are the main techniques used by the retailers in assessing a trading area's demand potential?
- 19. How the migration of population from central areas of the big cities to sub-urban areas is affecting location decisions of the retailers and mall developers?
- 20. Discuss the process of deciding about retail location.

CHAPTER

8

Merchandising Procurement and Store Brands



After studying this chapter you should be able to understand the

- ✓ types of merchandise and concept of product range
- ✓ process of merchandise procurement
- ✓ concept of merchandise assortment plan and factors affecting it
- ✓ concept, key calculations and benefits of Open to Buy Plan
- ✓ concept of store brands, issues involved and its advantages to the retailer

■●■ Introduction

As has been discussed earlier in chapter one, merchandise retailing is conventionally a trading activity. Purchasing and selling merchandise is the most visible aspect of retail business. Retailer as a buying organisation carries out the task of procuring merchandise from the supply base through centralised plan and operations with a team of dedicated personnel in order to satisfy its customer needs. It intends to buy quality products at a reasonable price and in a manner to ensure the availability of the product when required by the customers through logistic operations.

A robust supply chain is crucial for the success of the retail business. Most of the time, the term vendor is used which connotes the short term relationship which is driven by price. Term supplier is also a vendor but in that case the relationship between the parties is collaborative.

Though retailing is primarily a trading activity, there are certain retailers having almost complete control over the value chain. In many cases, retail operations have been hived off as separate businesses. Wal-Mart is the largest retailer in the world with annual sales of more than USD 300 billion, but it hardly makes any good. In a business world where the outsourcing has become a norm, the supplier relations are crucial to the success of the retailer. Even in case of private labels, the manufacturing is usually outsourced and they are procured from some manufacturer, especially in case of consumer goods.

■●■ Types of Merchandise Products

Various types of merchandise products are described as under:

Basic Products

- These merchandise products are bought and consumed in a routine manner.
- These goods are usually purchased for their functional value.
- These are generally low priced.
- These are available at many purchase locations.
- These generally includes staple goods, convenience goods, emergency goods; and some impulse goods also.

Speciality Products

- These need special purchase efforts by the customers.
- These have certain unique characteristics.
- These usually have some brand identification.
- These merchandise items are available only at select purchase locations.

Shopping Products

- These are bought less frequently.
- The customers tend to gather more information about the product.
- These are available at fewer purchase locations.
- These are compared for quality, suitability, price and style.

Unsought Products

- These are new innovative products.
- These products are not readily acceptable in the market.
- These require much advertising and personal selling to gain acceptance.

Urban India sees the world through luxury-tainted shades

Country's branded eyewear market has grown manifold in the past three to four years. Luxury is fast gaining synonymity with urban lifestyles. From Ray-Ban to Prada to Bylgari to Burberry to Versace to Vogue and Dolce & Gabbana, all the high-end names are here. Sunglasses or shades have definitely grown from being a **necessity to a luxury**.

While people used to wear sunglasses to protect their eyes only until a few years ago, now their choice of shades is more like an extension of their personality. Today people want separate pairs of shades for office, casual wear, party wear, beach wear and so on and this has given a major boost to the eyewear market. A regular pair of Ray-Ban sunglasses would cost anything starting from Rs 2,000, Vogue Rs 5,000, Versace Rs 10,000, Dolce & Gabbana at Rs 11,000, etc. Except for the middle class and lower middle class societies, the price is not much of a "deciding factor in the purchase" of Indian clients. "Style, fit and the brand" matter the most.

This was a result of a gradual change in trends in the accessories market. Not only eyewear, people are spending a lot on their bags, shoes, jewellery and for all this, they have become very brand conscious. So the branded eyewear market is emerging. A section of the public also has much more purchasing power. The high-end brands target the metro cities like Delhi, Mumbai, Kolkata, Bangalore and Hyderabad.

While the Indian luxury market is "emerging", in China, it is 10 times bigger. US, Europe and Japan are some of the biggest luxury markets in the world for us. But, within next 5-10 years, things will be different in India.

Apart from witnessing an upsurge, the eyewear market is even observing a comeback of trends, especially those in the 1980s. There was a time when shades used to be plain and simple, rounded and black. But designers the world over are now using an ultra modern approach to stylise sunglasses as large, round, square, bright, multi-coloured and most prominently studded with jewels.

Reference: Economic Times, dated 20 September, 2008

Exhibit 8.1

■●■ Product Range

This concept is related to merchandise mix and merchandise assortment plan. Product range is a common term used by the shoppers. They generally say the product range available at a particular store is good or bad or average. It is also linked with width and depth of merchandise available at a store. It usually means what are the options available to the shoppers in merchandise selection. It has got the different dimensions which are discussed below:

- *Consumer End Use* For example, a supermarket is selling different product categories with different end uses—grocery items, kitchen utensils, beauty products and so on.
- *Prices of the Merchandise* The term price lines denote the options available in terms of prices. The range can further be lower, medium, premium. These terms can be relative at times. Such as a product available at Rs 100 may be dirt cheap for someone and can be exorbitant for someone else.
- **Technological Features** The range is available in terms of technology such as in case of televisions, an electronics retailer is stocking CRTs and LCDs. Further the LCD range is split according to screen sizes and technological features such as number of pixels.
- Brands Brands can be store brands, local brands, national brands and international brands.

These ranges can be split further such as men's apparel may be divided into ranges such as formal wear, casual wear or party wear. There can be further classifications of men's apparel, according to fabric, style, etc. The merchandise hierarchy have been explained with the help of an example in the Exhibit 8.2.

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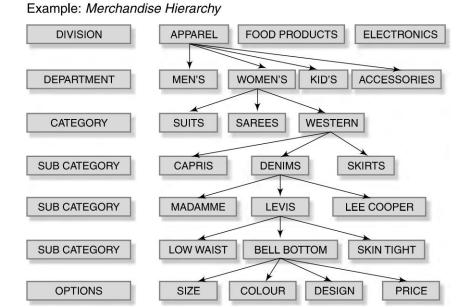


Exhibit 8.2

■●■ Process of Merchandise Procurement

The various steps in the process of procurement of merchandise are given as under:

- **1.** *Identification of Customer Needs and Product Specification* The retailer has to gather data for this purpose. The data can be available through the following sources:
 - Internal Sales Data: It can also be termed as Sell through Analysis. It compares actual and planned sales to determine whether more merchandise is needed to satisfy customer demand. It also suggests whether price reductions are required to get more sales.
 - Trade and Consumer Publications
 - Supplier's Sales Representatives
 - Market and Competitor Analysis

There are so many options available in the market, so it becomes really important for the retailer to specify the Product to satisfy the need. For a fashion retailer in some small city, the fashion statement is different from that of fashion retailer in a big city.

- **2. Specifying Demand** Retailers always intend to link demand specification to marketing opportunity. It should be financially viable for the retailer to meet the demand. Product and demand specification is important so that retailer is sure of spending monetary resources on inventory in a rational manner. This also helps in generating information about demand. Now-a-days, techniques are available to get idea about real time demand. Requisitions can be sought for different product categories, especially in case of big retail formats.
- **3.** Searching and Deciding about Product Suppliers It is the responsibility of purchase department to locate suitable sources of supply and price negotiations. As purchases constitute at least 50% of direct expenses in most of the product categories, procurement at right price can have positive impact on the profit margins.

Tendering If the order is of small value, the retailer can be found in a supplier catalogue, trade journal, etc. But in case of merchandise items, such as food and grocery which are sold regularly and which are required in large quantities; the process of tendering can be started. Even in case of products of specialised nature, the retailer can issue tenders in newspapers.

Develop Specification and Proposal Sheet Generally, the proposal sheet is prepared with due approval from authorities. The points should be taken into account while tendering are given as under:

- 1. Quantity requirements—depending upon demand, lead time, etc.
- 2. Price requirements
- 3. Functional requirements: about quality, date of manufacture (especially in case of pharmaceutical products and food items), design, colour combinations, etc.

In case of branded products, the retailer is assured of quality, but at the same time, the scope for price negotiations is less.

Encouraging Suppliers to Submit Tenders The tenders are advertised in the print media and bids are invited. In case the retailer does not want to go for print media, he can directly ask for quotations from reputed suppliers. Once the interested suppliers submit their bids, the proposals and samples are compared.

The certification by some nationally or internationally acclaimed organisations or agencies increases retailer's confidence in supplier's ability to supply quality goods at competitive prices.

4. Evaluation of Alternatives In case of sole sourcing, there is no question of comparison. In that case only one supplier is there due to technical capabilities, location, etc.

Performance Evaluation of Different Suppliers.						
Supplier Parameters	Supplier/Brand A	Supplier/Brand B	Supplier/Brand C			
Creditability (15)	12	9	11			
Ability to Meet Delivery Schedules (10)	8	9	8			
Merchandise Quality (20)	17	15	16			
Opportunity for Price Mark-ups (10)	8	10	9			
Service and Promotional Support (20)	8	8	9			
Fashion Trends (20)	18	17	18			
Supplier Certification (5)	3	2	4			
Overall Evaluation (out of 100)	74	70	75			

Exhibit 8.3

Different scores (or weightages) can be assigned to the different parameters by the retailer. Suppose, some retailers give more weightage to the fashion trends and others may give more weightage to service and promotional support by the supplier. A discount retailer may give more weightage to opportunity to price mark-ups so that the handsome discounts can be offered to customers at the later stage. Some retailers may give equal weightage to all the parameters.

Alternatively, if a retailer does not want to go for cumbersome process of tendering, the scope of direct negotiations is always there. That also reflects the actual situation. The retailer and the prospective supplier can talk one to one about pricing, quality of merchandise, delivery schedules, etc. This is the most practical approach. In case of multiple suppliers, the scope for price negotiations is better. Many

retailers are now going for single sourcing with the perspective to develop strategic relationship with the supplier. The small food and grocery retailers can make direct merchandise purchases from cash and carry wholesale formats.

- **5. Specifying the Order** Once the merchandise and its prospective suppliers are decided, it is the time for entering into formal arrangement between the retailer and the supplier. The retailer will issue a purchase order and look forward to the supplies. Quantity, quality, pricing and delivery schedules of merchandise are the main aspects which should be taken into account while making purchase orders.
- **6. Evaluating the Performance of Product and Supplier** Once the retailer receives the supplies, these are priced and put on display for sales. The merchandise and its supplier will be evaluated on the basis of sales, profitability margins and their movement on the shelf.

Contract farming and buying are emerging concepts in retailing. In contract farming, supplies are directly procured from the farmers. The big retailers intend to cut on their procurement cost with the help of contract farming. In addition, they are assured of consistency of quality and supply of the produce. This is in contrast to mandi system where the retailers have to pay commissions to the intermediaries.

For hypermarkets and supermarkets, the focus is on quantity discounts. The fashion retailer focuses on style and design. Discount formats may look for price negotiations. Fashion retailers want that apparel is made to order so as they are able to maintain exclusivity of the design.

Exhibit 8.4

Merchandise Assortment Plan

Merchandise assortment plan is important for taking merchandise purchase decisions and helps in store management also. It helps them take decisions what merchandise should be put on display.

There can be different assortment plans for the different parts of the year. Merchandise plan may take the classification of product categories to the level of SKUs. Plan-o-gramming discussed in Chapter 12 also helps in the process of merchandise assortment plan. For fashion merchandise items, the merchandise assortment plan will take care of style, fabric, design, sizes, colour and price levels. Assortment plan should have the flexibility to adjust to the changes in the consumer behaviour.

Within a particular product range, some categories may be showing growth in sales, some category may be stable and some may be actually showing negative growth rate. In case of apparel merchandise, this may depend upon the season during the year. This is taken into account while making merchandise assortment plan. Creating a balance within the product range and product category is a challenging task for the retailer. He should never lose sight of the core range which gives sustained business and is vital for the survival.

Factors Affecting the Merchandise Assortment Plans

- 1. Store Size, Site Location, Fixtures, etc. The retailer has to be very pragmatic while making merchandise assortment plan. A well located retail store of 100 square feet may not be suitable for the home furnishings stores as the space may not be sufficient for display of bed linens, curtains, etc. but may be good for the merchandise items meant for the young toddlers. It is not possible that to make retail store's fixtures suitable for all types merchandise items. For example, stocking apparel items on shelves meant for gift items may not create right image for the retailer.
- 2. Scope for Complimentary Items In order to maximise the sales revenue, the retailers would like to stock complimentary items. Thus they have to be part of merchandise assortment plan.

Fundamentals of Retailing

- 3. Experience of the Retailer The experience of retailers assist a lot in making merchandise assortment plan. This is especially true in case of fashion retailers where the gut feeling is important; whether a particular design will click in the market or not.
- 4. *Profitability of Merchandise* As the merchandise is the most visible aspect of business and helps in generating profits, the retailer would always like to have at least reasonably good number of items generating profits.

Open To Buy Plan

Effective buying is also essential for inventory control. It also ensures that adequate inventory is available for meeting the demands of the customer. Too much inventory or not having right kind of stock can adversely affect the cash flows of retailers and results in lower profits as the retailer may have to offer frequent mark-downs. In case of inadequate stocks as a result of under buying, there can be the loss of sales opportunities and profit potential. A retailer can be sure of stocking right amount of right products at the right time by using an open to buy OTB plan.

OTB can be calculated either in the units of merchandise or in rupees. OTB is basically the difference between how much stock is needed (to meet sales targets) and how much is on hand including goods in transit and outstanding orders. OTB plan is an annual plan, based on the projected sales for a twelvementh period in the calendar year.

OTB plan also indicates how much inventory should be on hand at the beginning of any given month and how much new merchandise should be received during the month to maintain optimum inventory levels. It should have the flexibility to adjust to the changes in the environment, customer tastes, or to focus more on the fast selling items.

Open To Buy Formula For calculating OTB, estimation of annual as well as monthly sales is important. For new stores, it is difficult to forecast the sales in the absence of any past data. The retailer has to take into account industry averages. Industry average can be adjusted on the basis of type, location and size of store.

A retailer has to see what quantum of annual sales is required to cover all operating expenses, financial and other types of expenses, yet making a reasonable profit. For existing stores, annual retail sales based on previous year's sales plus annual growth of 10-15%, keeping in view the inflation and average growth of economy.

Projection of Monthly Sales Retailer can calculate the contribution of each month's sale in the annual sales. Figures are adjusted according to the retailer's situation. In case of new stores, it is recommended that industry average assumptions for turnover and percentage sales per month. Average inventory requirements should be adjusted to meet the specific size of the store.

It is important to mention that due to advancements in the technology, OTB system is implemented on daily or even continuous basis. The data is automatically fed into the point of sales system which is forwarded to centralised buying office everyday. Inventory is replenished as soon as the inventory level goes down.

OTB (in Rupees of sales) = Forecasted Sales + Anticipated Markdowns + End of Month (EoM) Inventory - Beginning of Month (BoM) Inventory.

Initial mark-up (in Rs) can be deducted from the retail sales price to get OTB at the cost price.

For example, a retailer has an inventory level of Rs 250,000 on 1st of January and planned Rs 252,000 as end of month inventory on January 31st. The planned sales for the store are Rs 80,000 with 2,000 in markdowns. The concept of OTB has been explained with a simple hypothetical example as per the formula given above for a period of six months.

A hypothetical Six Month OTB Plan (January 200X-June 200X)									
	January	February	March	April	May	June			
Beginning of month inventory	250,000	252,000	260,000	260,000	265,000	260,000			
Monthly forecasted sales	80,000	75,000	90,000	100,000	110,000	110,000			
Markdowns	2,000	3,000	4,000	5,000	5,000	4,000			
Open-to-Buy	84,000	86,000	94,000	110,000	110,000	124,000			
End of month inventory	252,000	260,000	260,000	265,000	260,000	270,000			

Exhibit 8.5

The factors such as forward cover can also be considered to calculate the OTB. Forward cover is basically always maintaining a stock for few months in hands to avoid out of stock situation.

Advantages of Open To Buy System OTB helps retailers to achieve the various financial objectives in a more effective manner.

- Estimation of amount of working capital required on monthly basis and the financial resources can be mobilised for the purpose in a more focused manner.
- Retailer can ensure that cash or liquidity position is managed better.
- OTB aims to ensure that the retail store has the right inventory at the right time and right place, so investment in the inventory can be optimised.
- The profitability Gross Margin Return on Inventory (GMROI) also improves.

Above all these benefits, OTB ensures better customer satisfaction.

■●■ Store Brands

Store brands, also called private labels, are the products developed by the retailers and are available only through retailers, mostly at the stores of the retailer. They are supposed to be available in unit packages (not in the loose form, like the retailer sells sugar in small quantities to retail consumers from a big sack of sugar). They usually carry the name of the retailer but at the same time may carry the name of other party or parties with whose collaboration the private label has been launched. Generally, the name of manufacturer is also mentioned, especially in case of food products. In addition to the above discussion, the following are the main characteristics of store brands:

- 1. Private label products can encompass all the merchandise sold under a retailer's brand, as mostly is the case with apparel fashion retailers, shoe retailers, etc.
- 2. That brand can be the retailer's own name or a name created exclusively by that retailer. In some cases, a retailer may belong to a wholesale group that owns the brands that are available only to the members of the group.

Generally, following are the key features in development of private labels:

- It helps in benchmarking vis-a-vis the brand leader
- It gives a look-a-like effect of some established brand
- It gets priority in space allocation in the store.
- It helps in the listing of the stock keeping units (SKUs)

Retailers have to find the gaps in the value by the existing brand manufacturers and fill them by offering products under store brands. Private labels tend to fill the gap between the local brands and national brands, offering features of national brands, but at the lower prices. This is not to suggest that

store brands should have lower value perception. Current thinking emphasises mass customisation, which combines objectives of mass production and satisfying the needs of customers in a customised manner. This has become possible due to Flexible Manufacturing Systems (FMS).

As is the case with other brands, store brands have to be achieved a distinct positioning with the help of retail marketing mix and by conveying the brand value to the target customers. This is done in the rational domain of one's conscience. This is reinforced through emotional appeal, instore and out of the store communication.

Benefits to the Retailer

A retail store introduces its own private label for the following reasons:

- **1. To increase Customer Loyalty** The retailer by selling store brand products at lower prices offer better value to the customers. Thus, private labels try to increase the customer loyalty.
- **2. To Improve their Positioning and Image** The retailer aims at positioning itself better than other retailers. Many successful store brands can be launched at national level at a later stage. This can help retailers to achieve some economies of scale. Future Group has launched many successful store brands at the national level.

Store brands enable the lifestyle retailers (such as apparel) to differentiate customers through pricequality association by pricing the products at a premium. In the future, we may see many store brands catering to the needs of the higher end of the market.

Given the technological developments in recent times, standardised products no more enjoy unique selling propositions because of intense competition among national brands. So, more and more retailers are thinking to introduce their own brands.

3. Increase in Bargaining Power Retailers can improve its bargaining power vis-à-vis national brand manufacturers who use their stores for distribution. By introducing a private label, the store creates a situation of conflict with the national brand. This also makes the store's position better on the bargaining table. Thus, it shifts the power in the downstream channel. This may compel the national brand manufacturers to offer greater commission or discounts to promote their brands in the stores.

In addition to above benefits, retailers can achieve economies of scale through availing an opportunity to sell their private labels to Kirana Stores. But, it depends on their pricing strategy and ability to offer the right products.

Reliance Retail is understood to be exploring ways to supply its private labels in food and groceries to Kirana Stores and small retailers in the country. A separate entity, most likely to be named Reliance Foods, will carry out the private label business. This move is expected to give high retail exposure to its products in innumerable Kirana Stores in the country without spending much on advertising and marketing expenses; apart from generating business volumes. Company's flagship chain Reliance Fresh sells staples and food items under Reliance Select and Reliance Value brands, and dairy products under 'Dairy Pure' brand.

Reliance Retail runs over 850 stores, which include stores for food and grocery, consumer durables, beauty and wellness, jewellery, footwear, among others. Its formats such as apparel chain-Reliance Trends, beauty and wellness format-Reliance Wellness, consumer durable chain-Reliance Digital have private labels.

4. Economics of Store Brands Store is completely responsible for development of the store brands. It has to bear all the costs linked with development, sourcing, marketing effort, time, risk and promotion. It will reap all the benefits of the brand's success. The retailer will enter those product categories which have high profit margins, less competition (low entry barriers). For the customer switching cost should

be low. For supermarkets, many staple product categories offer good opportunities to the stores as the competition against the store label will be minimal from the unorganized market. In this case, through allocation of shelf or floor space, retail control can be established in a quick fashion.

Therefore, the benefits of store brand can not be confined to merely the profits the category yields but the additional footfalls it brings in. These economic benefits are not amenable to simple numerical calculations. More importantly, such benefits cannot be confined to any specific period and, therefore, calculation of economics of a private brand is more complex than what a static economic analysis can do. In brief, the economic benefits to a retailer from the introduction of store brands are:

- (i) To Improve Margins in the Category The retailer gains higher unit margin on store brands in comparison to national brands. The margins on store brands are higher than the national brands because the procurement is directly from the manufacturers and there are no intermediaries involved. Hence, it results in cost svaings.
- (ii) Expansion of the Product Category Sales As discussed earlier, retailers would introduce the store labels where there is some gap like niche market segments and where national brands are not offering any product. As a result, retailers can expect higher category margins from sales volume.

Indian Scenario—**Big Rush for Private Labels** The surge in demand for value-for-money items has sent the sales of private label brands soaring. The trend, which is popular in the west, is gathering momentum in India as the slowdown shifts consumers to economical products. A Vishal Megamart spokesperson said that the sale of its private label goods rose from 5-6% of its total revenue to 17-18% in the last 3-4 months. "We are expecting it to be 40-50% of our total revenue in two years. The value proposition of private label goods is very high," he added.

Spencer's Daily reiterated the same. The retail outfit of the RPG Group, which mainly caters to the affluent customers, has seen its sale of private label growing by 15-20% comparing to the previous quarter and set a target of generating 35-45% of its topline from the sale of private labels in two years from the existing 25%. The company's marketing manager, said that it has been decided to quadruple its stock keeping units for private labels to 10,000 in two years to cater to the flourishing demand.

Sensing a better business opportunity, retailers are trying to push their own brands by offering more discounts and giving better visibility in their stores so that the brands are noticed by the consumers. Rajan Malhotra, CEO, Big Bazaar, said the spurt in demand for private label brands is across all categories. "We are selling private label goods for a long time. In the last quarter, the sale of fashion accessories grew to 72% of total revenue from 50% last year," he said. He also added without divulging details that the food segment witnessed increased sale of private labels.

Future Group last week announced its foray into FMCG, consumer durable and apparel segment with its "Future Brands". It is expecting the private labels to contribute one-third of its total business by 2012.

Given the grim economic scenario, private labels might soon rein over the established brands. According to AT Kearney sources "The retailers have a broader range of their own brands now".

Top officials of In-Store Consulting, a retail consulting firm, said private label brands have low entry barrier. As the costs of running the stores are going up, the retailers can bank on their own brands for a better margin.

But, there is some sceptism on whether all retailers will be able to cash in one the spurt in demand for private labels. Stores like Big Bazaar and Apple may gain more as consumers with tight budget prefer shopping there.

Reference: Economic Times, dated 24 November 2008

Exhibit 8.6

Store brands are poised to grow in the near future. It mostly started with apparel industry in India with more and more retailers offering products under their own store brands. With Foreign Direct Investment (FDI) being allowed in many segments of retail sector, one can expect greater growth in large retail chains or outlets in the first decade of the current century.

[Summary]

- ➤ All efforts of the retailer are focused to ensure the movement of merchandise. It is the most visible aspect of the retail business. With retailers aspiring to take retailing to the scale of manufacturing, merchandising and inventory management are vital for the survival and growth of retail business. Any wrong decision can spoil the whole show.
- Merchandise can be mainly categorised as basic products, specialty products and shopping products. The product range can be defined as per end use, technological features, prices and brands.
- ➤ The identification of customer needs and product specification; specifying demand; searching and deciding about product suppliers; evaluation of different suppliers; and evaluation of performance of products and suppliers are the main steps in the process of merchandise procurement. Merchandise assortment plan is affected by store size, site location, scope for selling complimentary goods, profitability, etc.
- ➤ Open to buy plan is the main plan to guide the purchase of merchandise during the course of retail business so that the needs of customer can be met in an effective manner. It is basically the difference between how much stock is needed to meet customer needs and how much is in stock. It offers many financial benefits to retailers.
- > Store brands are the brands developed and marketed by the retailer and are the sole responsibility of the retailer. They can offer many benefits to the retailer in terms of increased customer loyalty, improved positioning and image of the business, and increased bargaining power vis-a-vis brand manufacturers. In Indian market, many retailers have big plans for the store brands.

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-[Revision Exercises]

Very Short Answer Questions

- 1. What is the purpose of merchandising?
- 2. What are the basic goods?
- 3. What is the specialty merchandise?
- 4. What do you mean by product range?
- 5. What is tendering?

- 6. What is purchase order?
- 7. What is merchandise plan?
- 8. What are store brands?

Short Answer Questions

- 9. What are the benefits of store brands to the retailer?
- 10. What are the different parameters to evaluate the suppliers?
- 11. What are the different factors affecting the merchandise assortment plans?
- 12. What are advantages of Open To Buy plan?
- 13. How can the store brands compete with the national brands?
- 14. Develop a hypothetical three month Open To Buy plan.

Long Answer Questions

- 15. Discuss the process of merchandise procurement plan?
- 16. What prospects do you see for store brands in India? Discuss.

CHAPTER

9

Category Management



After studying this chapter you should be able to understand

- ✓ defining product categories
- ✓ concept of category management and how it is different from brand management
- ✓ reasons for rise of concept of category management
- ✓ the process of category management in detail
- ✓ the role of category captains
- ✓ category management in the context of Indian Retail Market

Introduction

As we have discussed in the first chapter, offering right product to right customers is a key function of the retailing. The various decisions like what merchandise is to be purchased, in what quantity, at what time, from where, are of paramount importance as these are linked with customer satisfaction and ultimately with the success of retail business. These decisions are to be made on regular basis. Generally retailers take help of Merchandise Assortment Plans to take various decisions about merchandise.

■●■ What is a Product Category

First of all, it is important to understand the concept of category. A category is a distinct, manageable group of products, perceived to be inter-related by the consumers and are reasonable substitute to each other in satisfying their needs. Products in a category have certain common features and appeal to the same target market. The categories are treated as **Strategic Business Units**; separate strategies are formulated and tactics are adopted for them.

For example, for an apparel retailer, men's apparel, women's apparel, kids' apparel can be different categories. For a grocery retailer, shampoos, detergents, home cleanliness products can be different categories. The same product can be grouped under different categories by different retailers. Such as different flavours of ice-cream can be different Strategic Business Units for ice cream parlour-retailer, but for a food and grocery retailer, all the flavours combindely of ice cream can be treated as just one product category.

In certain products such as mobile phones where brand preferences of shoppers are very strong, category definition is usually done on the basis of brands like Nokia, Motorola, Samsung, Sony Ericson etc. in a multi-brand outlet.

■●■ Category Management

As per category management approach, the vendor or manufacturer is also involved in making and implementation of Merchandise Assortment Plan as a strategic partner. Here, the base of Merchandise Assortment Plan is category.

It is a business practice that brings integration between the objectives, strategies and tactical approaches of manufacturer and retailer. Information generated both at retailer's end POS and supplier's end (through market sources) are used for planning and implementation of concept of category management.

Brian Harris introduced the concept of category management two decades back to retail industry. He describes it in terms of a three-step definition encompassing a philosophy, a process and an organisational concept. Category management is a

- 1. **Philosophy** with aim to manage categories as Strategic Business Units
- 2. **Process** for retailers and suppliers to jointly develop strategic category plans
- 3. **Organisational concept** to integrate buying and merchandising decisions

To sum up this three-step definition, we can say that category management is a total way of managing retail business. Category management as a concept is the essence of Efficient Consumer Response (ECR) System. The Efficient Assortment, Efficient Replenishment, Efficient Promotion and Efficient New Product Introduction are the four essential components of ECR.

AC Nielson gave almost same definition of category management way back in 1992, with focus on customisation of product categories on store by store basis, though it was not possible for most of the retailers at that point of time to implement the concept due of lack of desired supply chain capabilities

and IT. But over a period of time, big retail giants like Wal-Mart, Carrefour, Tesco and Metro have developed infrastructural and IT capabilities to implement the concept of category management.

Food and grocery retailers were the first ones to adopt the concept of category management, followed by others like the consumer and auto industry. It has been adopted by many brand manufacturers such as Unilever, P&G and Kmart in collaboration with various retailers. GlaxoSmithKline has also taken initiatives in OTC and healthcare product categories. Now, the concept is being adopted by consumer durables and service Industry in a big way.

Some specific examples involving category management partners are given below:

- Colgate Palmolive and Global
- ASDA and Masterfoods (UK)
- Metro and Coca Cola (Germany)
- Foodworld and Dabur Foods.

Success of Wal-Mart has already showed the way that how rationalization and collaboration among the channel partners can increase productivity in retail operations and offer more value to customers. Wal-Mart strategy is based on a concept of Efficient Consumer Response (ECR).

Difference between the Category Management and Brand Management

The concept of category management is quite different from the concept of brand management.

Brand management aims to differentiate or position one manufacturer's brand vis-a-vis the competitors' brands. It further suggests that brands need determined promotional efforts to realise their maximum sales potential and only the strongest brands are able to survive and grow. Brand management also suggests that if a brand is loosing its position in the marketplace, it is better to have a sister brand taking its place rather than some other brand in the same category, so that sales still remains within the manufacturer's organisation.

On the other hand, category management focuses on improving sales performance of whole product category rather than the performance of individual brands. As opposed to the holistic approach adopted in category management, brand management actually intensifies competition in a product category.

Competing brands within a category give rise to cannibalisation problems where a lot of marketing efforts and financial resources are wasted on countering strategic and tactical moves of the competitors. Problems become more complicated when consumer loyalty decreases towards a particular brand. This becomes a real challenge.

Once the retailer's sales become maximum and gets stabilized in a particular category, equilibrium established within the category would be the most desired scenario for different brands in that category. But still sales figures for different brands may keep on changing.

Procter and Gamble also adopted the concept of category management. Under the category management model, brand managers do not compete against each other with similar products in a category. This approach is quite different to the earlier aggressive brand management practices adopted by top management of Procter and Gamble. For instance, in the detergent product category, brands like Tide and Cheer share the available marketing expenditure and other financial resources but were not allowed to compete for the same segment of customers. Hence, while Tide was positioned as the premium brand, Cheer targeted the customers in the economy segment.

Relationship between Category Management and CPFR

Category Management is linked with Collaboration, Planning, Forecasting and Replenishment (CPFR) which has its origin in Electronic Data Interchange (EDI). Category management is closely linked with

demand or marketing side and CPFR with the supply chain management. Under this concept also, the retailers and suppliers work in collaboration with each other for stock management. Logistic service provider can also be involved as a partner.

CPFR also focuses on sharing of information on market demand and other factors affecting demand, so that forecasting is accurate and thus, production can be linked to sales. CPFR is specifically used in situations when lot of promotional activities and demand fluctuations are there.

Reasons for the Rise of Category Management

Retailers can maximise their sales in the category through an optimal mix of brands, SKUs, pricing and promotional efforts that is determined from the consumer's perspective and is based on sales data, both historical and real time.

Category management has its origin in late 1980's, when the American retail and consumer goods industry were facing many problems. Price competition and increase in input costs were putting pressure on profit margins. There was little scope for increase in manufacturing productivity in consumer goods. It was realised that any true gain through differentiation could be achieved only through close association between retailers and manufacturers.

It has been observed that in consumer's buying decision, category comes first as it is directly linked with satisfaction of customer needs, then it is the retail format/location and at last it is the brand. So, a retailer can achieve more competence with the intelligent management of a particular category. The different retail-specific reasons for the rise and popularity of category management can be described as under:

1. *Increasing Complexity of Shopping* Due to intense competition, changes in consumption patterns and increasing diversity of consumer segments, manufacturers and retailers have to offer more products, new sizes, line extensions, etc. all the time. As a result, SKUs are increasing and shelf space is squeezing. Thus, efficient shelf management is essential for the success of a retailer.

Furthermore, many retailers are trying to promote their stores as "one-stop shop". Time starved shopper can just spend few seconds across a category. There are hundreds of in-store messages pulling shopper in different directions. Thus, shopping is becoming an increasingly difficult task.

Customers actually look for simplicity in making buying decision. There is need to ensure that what consumer wants is available on shelf and easy to find when they are in store. Category management is a genuine effort towards convenient shopping; and enhancing consumer value as it is better linked with buyers' needs.

Interests of both retailers and suppliers are served better if they know with higher certainty that the consumer is likely to purchase in the next store visit. Category management helps them to adopt proactive approach in determining buyer behaviour.

2. Need for Rationalisation of Investments in Stock Keeping Units According to survey conducted by Technomic, distributors make profits on only 43 per cent of their SKUs and on only 47 per cent of their vendors. Moreover, 77% of sales volume is generated through only 20% of SKUs. Thus, there is higher certainty in merchandise assortment plans so that the retailer keeps only required stock and his inventory related costs in respect of perishable food items and fashion merchandise are minimised. This can also help retailers in avoiding "Stock Out" situations.

The concept of 'Space-Time Intelligence' can make us understand the importance of Real Time information, a key enabler in making merchandising assortment plans under category management.

Time is an essential component to understand the context that drives real world phenomena. This is applicable to business situations also. The retailers look for opportunities to make optimum utilisation of available time and infrastructure. For example, the knowledge about demand patterns during different parts of the day is crucial for restaurateurs and convenience retailers.

For radio programming, the morning and the evening "drivetimes" are important when radio listeners actually glue to their radio sets. The same is true about tour and travel agencies which offer seasonal packages. Time has got different dimensions, from season of the year, to the month to the week and to time of the day. Thus, real time information has become very important to take tactical decisions.

The success of Category Management Program depends upon the synchronisation of real time information generated at retailer's end and market information available with the manufacturer.

Reference: www.directionsmag.com accessed on February 6, 2009

Exhibit 9.1

3. Need for Micro-merchandising Kirana Stores use to enjoy personal rapport with the shoppers and have fairly good idea about the shopping habits of customers and their family members. They make merchandise plans accordingly.

In modern retail, with fragmentation of the mass markets and rise of multi-channel and multi-store retailing, there is greater realisation that shopper's behaviour may differ across different stores and channels. It is forcing retailers and suppliers to go for a detailed planning, possibly on store to store basis to enrich shopping experience.

- **4.** Availability and Leveraging Use of Technology These days the technology is the key enabler for the success of any business concept and process. If your competitors are using technology to get competitive edge, it becomes imperative for you also to make use of it. Both retailers and manufacturers integrate and share the information. RFID, internet, data warehousing, data mining and POS systems are facilitating the process of category management.
- **5.** Consolidation among Retailers and Increase in Consumer Power Traditionally, the retail industry has been fragmented. But now with consolidation, emergence of big retailers with increased market share and financial power has intensified competition in the market. These retailers are leveraging their size to bargain with vendors to share with them the cost of competition and to increase promotional spending to ensure better retailer sales and profitability. The hyper-competition in the marketplace requires business processes to become more efficient. This further requires the partnering between retailers and manufacturers. On the other hand, the consumer power is also increasing as compared to retail power, which is also forcing retailers and manufacturers to work together.
- **6. Rise of Mass Merchandisers and Category Killers** This is the also one of the most formidable reason that retailers especially from supermarket and hypermarket formats have adopted the concept of category management in a big way.

Here the example of pet food industry in USA can be taken. The food stores used to have 90% shares of pet foods, but with the advent of mass merchandisers and category killers, their share declined to 50%. By implementation of category management, they got some sales back, but may never regain their market share. The same is the case with other consumer products like toothpastes, oils, and soft drinks, etc.

Why manufacturer should get involved in the concept of Category Management?

Why the manufacturer should have any interest and active participation in the category management? What is the justification of spending scarce resources for category management?

The primary reason is that satisfaction associated with the selling process and the performance of the product can result in repeated purchases and world of mouth advertisement.

The importance of category management to manufacturer can be explained with an example. The manufacturer assumed in this case is Voltas, a major brand in air conditioners. If the customer is dissatisfied with the performance of a dealer, then dissatisfaction spills over to manufacturer also. It is due to the fact that the manufacturer's brand name is well established, displayed at dealer's outlet as well as on the product.

Store atmospherics, orientation and training of salespeople, the way product is merchandised and demonstrated, information sharing with the shopper, the way product is serviced are of concern to manufacturer as well. The manufacturer does not lose interest as the title of goods passes to dealer and then to the shopper. The survival and growth of product manufacturer also depends upon performance of product and channel members. The nature of participation by vendor can be strategic as well as operational. The degree of participation of manufacturer is dependent upon nature of product, unit value of product, requirement of after sales service and many other factors. So relationship between retailer and the manufacturer is not entirely vertical.

Exhibit 9.2

■●■ Process of Category Management

Category management mainly aims at providing solutions to various merchandising decisions. It is a very intricate process linked with other elements of retail mix, their implementation and store operations. Category management as a process has certain key features:

- Category management model may show variations from one retailer to other.
- Process must be flexible in order to fit into retailer-vendor partnership situations.
- Enhancing customers value; sole motive should not be reduction of cost.
- Infrastructure in the form of processes, information system and measurement tools should be in place.

Taking The Partnering Group (TPG) approach as a base, category management as a process is being discussed as under.

1. Category Definition

Category definition determines the products that may constitute a category, sub-category and major segmentation. It controls the way data is generated at retailer's end and use of other available data. It is the basis for measurement of market share of a category.

Practically, the category is defined by taking into account a number of factors such as big number of SKUs, available shelf space, turnover and customer traffic profitability, etc. Understanding about the target consumer and buying behaviour are also helpful in category definition. Insight into goals, existing strategies of retailer, business definition and competitive position are also important.

As per category management approach, products are more than just goods being sold. They play strategic role as a category or part of category in the overall portfolio of the retailer. The different product categories have different target consumers.

As discussed in the beginning of chapter, there can be different ways to categorise the products, but all parties concerned—retailers, manufacturers and even supply chain members should agree with the category definition. This step has been explained with the example of Croma Retail in Exhibit 9.4.

Fundamentals of Retailing

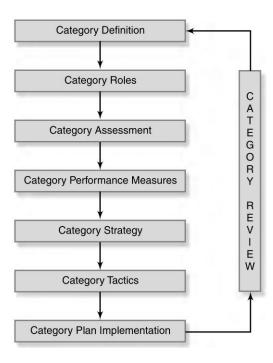


Exhibit 9.3

2. Category Roles

Category role defines how consumer perceives the category and how that category can satisfy the needs of the consumers. Each category plays a specific role for achieving retailer's objectives. It also defines the role that selected category is going to play in the overall business portfolio of the retailer. Thus, it gives retailers the perspective to allocate resources among various categories.

Generally, the role of category can be to drive traffic into the store or to increase impulse purchases. Two factors are important in defining category roles.

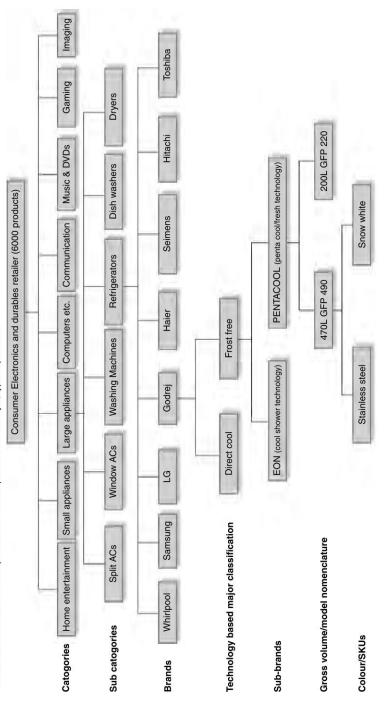
- Availability of information about 'pre planned shopping' and 'impulse shopping'
- insight about changing buying decisions while shopping in store.

Defining category roles is not a one-time activity. There are mainly two sets of Category Roles—**Retailer Defined and Customer Defined**. In category management, we are more concerned with retailer defined category roles. These are used in strategy formulation for the growth and development a category. This is, however, not intended to undermine the importance of customer defined category roles.

Retailer Defined Category Roles First retailer defined category roles are being discussed. At this stage, the interests of manufacturer are important as they can leverage the importance of a category to enhance the consumer value and profitability. Generally, there are four category roles:

- 1. Destination Category Role
- 2. Routine Category Role
- 3. Occasional or Seasonal Category Role
- 4. Convenience Category Role

Category definition: An example of croma, a consumer electronics and durables store chain, owned and run by infiniti retail limited, a 100% subsidiary of Tata Sons and supported by Woolsworth, Australia for global outsourcing. This is only a major classification for the purpose of understanding of concept. Further classifications are also possible on certain parameters like style, type of paint etc.



Note: This diagram is being given for the sole purpose of the understanding by the students. Minor variations can be there. Reference: Company website accessed on July 15, 2008.

Exhibit 9.4

Let us discuss these roles one by one:

1. Destination Category The destination category helps in making the store as the dominant or first choice for the customer. This is done by delivering consistently superior value to consumers. It also means that the retailer would strive to become the primary provider of the products of the category, normally not available at other stores. Thus, destination category has a distinguishable position in retailer portfolio.

Reliance Fresh intends to introduce more imported fruits and vegetables in its stores to make them destination categories. Another example is Foodworld, known for availability of fresh vegetables. Fresh vegetables here play the destination category role.

Normally destination categories are 5-7% of total categories, but the percentage share may vary depending upon the nature of the retail business.

- 2. Routine Category Role Routine category role is played by of the preferred category providers to help develop value. Routine categories are those that the consumer purchases as matter of routine and would include things such as toothpaste, hair oil, toilet soap and many grocery products. The preferred category would be expected to play a primary role in making profits, cash flows and return on assets though margins may be average. 55-60% of total categories may perform this kind of role.
- 3. Occasional/Seasonal Category Role Products of this category are those which are purchased occasionally or follow cyclical patterns. This can also become destination category if retailer is better positioned for a particular category during the season. Like a retailer providing better assortment of woolen apparel during winter season. As seasonal variations are higher in North India, the scope for seasonal role is better in this part of country for a apparel retailer as compared to South India.

Another example can be a fruit seller providing a good variety of mangoes throughout the mango season. The availability of a product category say ethnic wear (e.g. Garba a Gujarati dance dresses) in a particular store in a market can be taken as an example of occasional category role. Typically, 15-20% of categories perform this kind of role.

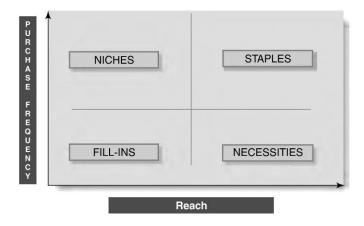
4. Convenience Category Role This category role helps reinforce the image of One-Stop shopping among target consumers. It helps build up the retailer as a category provider and his store as the store of choice by delivering good target consumer value.

Convenience categories are those that the consumer finds convenient to pick up at a nearby retailer rather than visiting another retailer who may offer a wider selection or better prices. Hence, the factors like easy access to retailer and availability of products are more important than selection and pricing. This category role tends to deliver excellent everyday value to the target consumers. It also helps generate profit margins. Normally, 15-20% of the categories are assigned this kind of role.

Consumer Defined Categories The consumer defined category roles are also important for making strategic and tactical decisions relating to pricing, promotion, etc.

For consumer defined roles, the classification by Food Marketing Institute can be taken as a base. It can be done according to two parameters (i) Reach—percentage of households purchasing the category products and (ii) Frequency—average number of times per year the category products are purchased. As per this classification, categories can be grouped as under:

- 1. Staples: High Penetration, High Frequency
- 2. Niches: Low Penetration, High Frequency
- 3. Necessities (also known as Variety Enhancers): High Penetration, Low Frequency
- 4. Fill-ins: Low Penetration, Low Frequency.



Reference: Food Marketing Institute

Exhibit 9.5

Since consumer buying behaviour to obtain staples is different from fill-ins, retailers' strategy will also differ. Since higher penetration and higher frequency categories are more likely to be on shopper's purchase list, the retailers will tend to use staples as traffic builders and fill-ins as profit generators.

3. Category Assessment

Category assessment is the analysis of strengths, weaknesses and potential of a category. Category assessment is done on the basis of consumer, distributor, supplier and competitor data. Such analysis helps to identify opportunities for the category chosen.

The following are key issues, which the category manager has to ponder over so as to make category assessment a meaningful exercise.

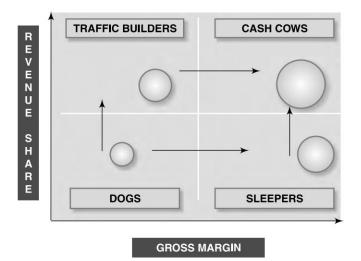
- Evaluation of the importance of the category to the target consumers.
- Identification of the category trends—sales volume, market share and profitability
- Details about main product segments
- Gradation of SKUs in terms of movement—slow moving versus fast moving
- Assessment of generation of revenues by the category as per space allocation
- Information on the contribution of various national brands, private labels in the category

How category assessment helps in ascertaining sales potential can be explained with the help of an example. Suppose the market share of a grocery retailer is 15%, but in juices category, its current market share is only 8%. Then, we can make a simple assumption that there is a gap in performance in its juices category and hence, sales potential is required to increase market share of juices category to increase to a level of 15%. This information can be translated into potential Rupee sales and to set new targets.

The Revenue Share—Profit Margin Matrix given by Beckman facilitates better understanding about categories to treat them as Strategic Business Units. This is based upon BCG Matrix and made from retailer's perspective. This matrix is also referred to as Strategic Quadrant Analysis.

This diagram shows hypothetical placement of product categories in the form of Cash Cows, Traffic Builders, Dogs and Sleepers. The area of circle is corresponding to the total revenue generated by the category.

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Reference: Beckmann, 1996

Exhibit 9.6

Cash Cows Generally, the categories with routine roles become cash cows. Some destination role categories also become cash cows. They need greater share of resources like merchandise investment, store space, displays, etc. available with the retailer corresponding to their revenue generation.

Traffic Builders The traffic builders with their high sales volume are instrumental in bringing shoppers into the store. The growth rate might have stabilised or actually start declining. This can be due to competitors may start dealing with this category. Some destination and routine role categories belong to this group.

Sleepers The sleepers are good in profitability but low in sales. These are slow moving. These need to be pushed into the market by better displays, promotions and need to be placed among preferred category items. The sleepers are generally from convenience category.

Dogs These categories are low both in sales and margins and are stocked in anticipation of some season or trend. These can be the result of incorrect sales forecasting. These may need encashment at the earliest.

In a nutshell, this analysis becomes necessary as the categories are being treated as Strategic Business Units as per the concept of category management. It also shows that how different categories fit into overall retailer objectives. In other words, it compares and ascertains the role and status of different categories in retailer's portfolio. It is crucial for formulation of category-specific strategies.

4. Category Performance Measures

Category management is a result-oriented strategic process. Category Scorecard measures and monitors the progress and performance of the different categories against target performance. For this, the designing of category scorecard is crucial. The concept of category scorecard is similar to Balanced Scorecard used in strategic management, with the difference that category scorecard makes use of retail-specific measures.

Category Management

Parameters	Current Performance	Potential	Target
CONSUMER PERSPECTIVE Shopper Conversion Retention Level Satisfaction Rating			
CATEGORY MARKET SHARE			
As a Percentage of Department As a Percentage of Market			
SALES			
Sales (in Rs) Sales per sq ft per week			
PROFITABILITY			
Profit (in Rs) Gross Profit Margin GMROI			
PRIVATE LABEL SALES			
Sales (in Rs) As a Percentage of Total Sales As a Percentage of Profit Margin			
MERCHANDISE SUPPLY			
Days of Supply Out of stock in %age New product Development Time to Market Number of New products			

Reference: DellMart & Company

SERVICE LEVEL

Exhibit 9.7

The parameters used in category scorecard are operational as well as strategic. Against each parameter, current performance, target and potential are mentioned so as to get an idea about the performance gaps. The performance of each parameter can be put in the form of scores also after assigning weights to different factors. The following parameters are generally used in category scorecard.

These measures can be broadly categorized as Consumer Measures, Financial Measures, Inventory Measures and Supply Chain Measures.

5. Category Strategies

Category strategy is the long term action plan to achieve category objectives in a competitive environment. Strategies are formulated for the promotion of categories according to their roles and in order to achieve category and retailer's objectives. This is crucial as the resource allocation is also related to category strategy.

As category is treated as Strategic Business Unit, the strategies help a retailer in positioning and developing core competence of the category. Various issues which are taken into account while formulating of category strategy are as follows:

• Enhancement of customer value

Fundamentals of Retailing

- Decision about investment or disinvestment in a particular category
- Portfolio of national brands and private label in a particular category
- Merchandise assortment and levels of stock
- Pricing Policy and promotional-mix
- Identification of untapped market opportunities
- Development of dedicated supply chain capabilities for the category
- Retailer Image and competitive positioning
- Store operations

Types of Strategies in Category Management This step involves the development of marketing strategies for the category. Category marketing strategies can be classified into demand-chain and supplychain categories.

Demand-chain Strategies The strategies regarding cash generation, traffic building, profit generation, transaction efficiency, image enhancing, and excitement creation come under the demand-chain strategies.

- **1. Traffic Builder** The aim of any retailer is to build traffic—'footfalls' or the number of visitors in case of physical and virtual retail stores, respectively. The traffic builder strategy focuses on mass products and most of prospective customers are aware of the pricing and features of these products. The retailers try to build up traffic by adopting various methods mentioned in Chapter 13 on Promotional Mix.
- **2. Transaction Efficiency** This strategy focuses on increasing the average size of transactions in a particular category with the motive to increase the total size of sales in the store. While the prospective buyers are in store, retailers can try to convert them to impulse buyers. This can also be achieved by selling the products with large transaction value. The traffic builder and transaction efficiency strategies can be integrated with each other to generate higher sales volume for the retailer.
- **3. Cash Generation** This strategy focuses on introducing products on shelves which have efficient supply and high turnover. The retailers operate on volumes though the profits may be lower.
- **4. Turf Defending** Turf defending is basically a defensive strategy. Certain categories are ought to be protected in such a manner that they defend the overall business of the retailer from competitors. Sometimes even the parts of categories may be positioned in such a manner to defend a category from competition.
- **5. Profit Generating** There are certain categories which generate good profits for the businessman. They command a good loyalty among consumers and are not very price sensitive.
- **6. Image Enhancing** This strategy helps create desired image in the minds of the consumers by way of pricing, service, quality and assortment. These features can be used singly or in combination with each other.
- **7. Excitement Creating** This strategy creates sense of urgency or opportunity to purchase the product. This needs continuous innovation from retailers.

There can be overlapping in case of certain strategies.

Supply-chain Strategies The strategies regarding merchandising flow and transaction costs come under the supply chain strategies.

- **1. Merchandise Flow** These strategies aim at building up supply chain efficiencies. This may also include partnering with vendors.
- **2. Transaction Cost Minimisation** This aims at minimising the transactions costs. All of these strategies can be applied singly or in combination with each other.

6. Category Tactics

Category tactics are operational plans for the implementation of category strategy. These can also be referred as short term plans to deal with dynamic and competitive retail environment in such a manner that long term category specific strategic goals are achieved.

Tactical plans have gained importance because of availability of real-time data which makes them more realistic and accurate in response to the changes in the context of a category. Under the conditions of uncertainty and intense competition, the tactical moves become more important.

Category tactics involves determination of optimal category pricing, promotion, assortment, and shelf management that are necessary to achieve the agreed-on-role, scorecard, and strategies. These can be discussed as under:

Merchandise Assortment Tactics Offering assortment of merchandise is the most basic function for a retailer and directly related to customer needs. Changes in merchandise assortment are required to meet customer needs more effectively.

These tactics have gained more importance when the mass market is converted into smaller market segments and micro-merchandising is required to remain competitive. Adopting assortment tactics means changing merchandise mix-breadth and width of merchandise. The motive is to increase impulse buying. Assortment related to brand and decisions also like changing mix of national brands, and private labels on continuous basis.

Pricing Tactics Though the purpose of category management for the retailer is to differentiate by enhancing the shopping experience and thus, decreasing the overdependence on pricing as a tool to attract customers, yet pricing as a tactical tool will always play an important role. Generally, the price level corresponds to quality of shopping experience. As customer experience improves, the prices also go up to some extent and the vice versa is also true to some extent.

In practice, pricing is nothing but price changes and is linked to the value offered by the retailer. It is the most potent tool especially, if differentiation is not possible through the other elements of retail mix. It can have impact on catchment area also like lower price can widen the catchment area. The mark ups and mark downs are the most visible aspects of pricing tactics. The pricing is used as a promotional tool also. Offering various price points is also a pricing tactic. The predatory pricing is a powerful pricing tactic which can be used only by the retailer with deep pockets.

Promotional Tactics Promotional tactics aim to create excitement around products and thus, increase impulse sales of the product. These can be used when a new product is launched, during festival season, to promote sales of slow moving merchandise or to clear stock during slack season. The purpose of promotion is to expand demand by frequent purchases and more usage of the product. The timing of promotion tactics is very important. Various vehicles used for promotional tactics can include store displays, advertisement on print and electronic media, internet, publicity, etc.

Shelf Presentation Tactics The shelf presentation along with store designing, window displays, visual merchandising have become important techniques to increase impulse buying. This gives scope for impulsive shopping in the category. The spacing of different items of a category, related products and placement of merchandise are important aspects of shelving decisions. Modern retailers take help of planograms for shelf placement decisions, whereby many options can be created for shelf presentation as per needs of the customer. The shelf presentation is closely linked with space management.

In Exhibit 9.8, Category Tactics have been discussed according to category roles!

	Category Tactics						
Category Roles	Merchandise Assortment	Pricing	Self Management	Promotion			
Destination	Complete Breadth and Depth of Merchandise - Best Variety in Market - Premium Brands - SKUs	Leadership - Best Value of Money - Different Price Points	Prime Location in Store - High Traffic Area e.g. Near Entrances Primary aisles - Best window Display/Visual Merchandising - High Exposure Time	High Level of Promotional Acitivity - High Frequency - Long Duration - Multiple Vehicles - In-store Promotion - Customised			
Routine	Broad Variety - Sub Categoreis Major Segments Major brands/SKUs - Private Labels	Competitive -Consistent - Equal to Competition - Value for money	Average Location in Store - High Frequency of Transactions possible - High space allocation	Average Level of Promotional Activity - Average Frequency - Average Duration - Multiple Vehicles			
Occasional/ Seasonal	Timely Variety - Changing Vendors - Sub-Categoreis - Segment	Competitive/Seasonaly - High if full assortment is available and retailer business is seasonal	Good location is Store - High Traffic - Good Display - Specified Location for Seasonal Merchandise	Seasonal/Timely Promotion (if Necessary) - Multiple Vehicles - In-store Promotion			
Convenience	Select Variety - Major Brands - Major SKUs	Within Reach of Competition	Available Store location	Low Level of Activity - Selected vehicels			

Exhibit 9.8

7. Category Plan Implementation

Store is the place where category plans are made operational. It is also the point of sales as well as the place where consumer choices and customer-retailer relationships are manifested. The consumer is offered enhanced value through category management process in the store.

The role of manufacturer is very crucial at implementation stage as it often does the initial analysis in terms of financial resources requirement and potential benefit. Implementation plan includes what specific tasks need to be done, when each task should be completed, and who is to accomplish each task. The implementation of the category plan is the weakest but the most vital link in the entire process. It also determines the degree of competitive advantage gained. Here we can take example of Wal-Mart where implementation is followed religiously, with utmost discipline and it is the largest retailer in the world.

Though there is no single approach for implementation of category management, there are certain fundamental principles and processes to make implementation more effective. Implementation depends upon the capabilities, policies and practices of the organisations.

Nowadays in case of store chains, **clustering approach** is being adopted as an alternative to store to store basis for the implementation of various merchandising decisions. As per this approach, the stores which show same kind of consumer buying behaviour are clubbed together for the purpose of merchandise assortment and for the purpose of implementation. Wal-Mart is a very good example for clustering approach.

Reference: Harvard Business Review, April, 2006

Requisites for the Implementation of Category Management The current approach and practices are building blocks for the future performance, so one has to be careful. The different prerequisites for the implementation of category management are as follows:

- 1. Confidence that category management will lead to success and create value for end consumers.
- 2. Ability and commitment from manufacturers and retailers. Roles should be clearly defined.
- 3. Information technology is a key enabler for category management, so investment in technology is crucial.
- 4. There should be multifunctional teams and support from top management.
- 5. The goals of partnership should be translated into functional plans.
- 6. Education and training of buyers as well as suppliers

Wal-Mart has pursued strategy of standardisation for merchandise mixes, operating and marketing processes across the entire value chain for many years. It worked well for Wal-Mart and helped it achieve economies of scale. The company has a very sound logistic system.

But with increasing importance of local markets and diversifying consumer profile, the customisation of stores across different geographies and markets became important to stay ahead in competition in USA as well as other parts of the world. Through its Retail Link Programme, Wal-Mart collaborates with vendors to customise stores with precision. It has developed huge databases, with two years history of each SKU in every Wal-Mart Store. Using the retail link portal, maps of local customer demand can be created. They clearly indicate-how much merchandise to stocked, when and where. With the help of retail links, Planograms are created to reflect upon local demand pattern. With technology as the key enabler, Wal-Mart is able to implement customisation while reaping benefits of standardisation.

Reference: Harvard Business Review, April, 2006

Exhibit 9.10

8. Category Review

The category review is about measurement, adjustment and learning. This step involves the continuous measurement, evaluation and review of performance of the overall plan. Development of a system of regular reports and monitoring for catching category trends and opportunities. Retail information system has to be very effective. It is better if analysis is based upon real time information and thus, is done on continuous basis.

Now the technologies relating to category management such as assortment planning, space optimisation, price promotion and markdown optimisation are available and analytical tools have become more sophisticated. This has made it easier for the partners involved in categories to gain insights. The qualified resources, trained and seasoned people are required for quick insights. Through category review, the partners can explore new opportunities in the environment.

The initial indicators may not augur well for the manufacturer's product, but must have the financial muscle to accept losses.

Role of Category Captain Category management is primarily a retailer's strategy, where the prominent role is to be played by vendors and manufacturers. Manufacturers generally have better expertise in merchandise assortment, physical merchandising (including number and sizes of SKUs), branding, pricing aspects, promotions, etc. relating to a particular category. This is due to the fact that their sales people are working with different retailers, they have good idea about market trends and conditions, they undertake market research also. Such expertise, coupled with consumer data available at retailer's end and market data of the industry, enables the manufacturers to play the role of Category Captain.

Fundamentals of Retailing

Category captains are the representatives of the manufacturers working at retailer's end to implement the concept of category management. Objectives of category management are accomplished through category captains. In developed countries markets, these roles exist because most of the manufacturers are now selling about 80% of their goods to large national retail chains, who buy for each category. The trend is catching up fast in India as the modern retail is increasing in size and importance. The important dimensions of role of category captain are as follows:

- There are two sets of relationships which are keys to success to category management performance— Supplier-Retailer relationships and Retailer-Consumer relationships. The lynchpin of Supplier-Retailer relationships is category captain.
- Generally the category captain is from the leading brand, but can be from other favoured brand as well. Since leading brands spend substantial money on promotion and customer support, they can exert more influence over retailers.
- Retailer for each category usually relies on one manufacturer to act in the role of 'Category Captain', providing the buyer with a detailed drawing called a 'Planogram'. The full-colour picture of the actual store shelf suggests about placement of brands and SKUs.
- Category captain enjoys a lot of authority by the supplier with tactic approval of retailer. Retailers allow them to access POS data. Category captain leads cross-functional teams.
- Traditionally, suppliers provide a lot of information and advice on the pricing and promotion of
 their own brand and while doing so, these may disparage the brand of the competitor. Role of
 category captain may include actually providing advice on retail mix of the rival brands in a particular
 category.
- Category captain helps in lowering the intensity of competition among rival retailers, though it may never be completely eliminated. The role of category captain is crucial to keep category strategies as well as tactics of competing retailers insulated from each other to the extent possible. This is also important to avoid conflicting situations and wastage of resources to fight competition.

Here we can take example of beauty product manufacturer. Category captain may try to assign different category roles to different retailers on the basis of formats in a particular market having the common catchment area, a supermarket assuming the convenience role and hypermarket, a routine category role.

The category captains may work with the retailer's competitor as well, but in that situation they coordinate with the advice given to the retailer. Thus, through their actions they can provide stability to the category marketplace. Otherwise, interests of retailers as well as those of manufacturer will suffer.

There are certain ethical issues involved with the role of category captain. As category captain is guiding the sales of competitors' brands, their pricing and promotion etc., the role of category captain comes under the scanner. Sometimes, it can become turn into an ethical issue. Many countries enacted legislations to prevent its misuse. Initially, it may appear that category captain is helping the competitor's brand, but as the size of pie gets bigger, the brand which initiated the concept gains the most.

Category Management in India: "Category Management is still nascent, but way forward for retailing". Though modern retailing is gaining momentum in India, it has already started experimenting with the concept of category management. FMCG companies like P&G, Cadbury are trying to replicate the concept in Indian market to get benefitted. Furthermore, they have deep pockets and international experience by their side. However, the Indian FMCG industry has to go through the learning curve to implement the concept of category management.

India's largest retailer, Future Group, has already implemented the concept in several categories ranging from beverages and skin care to beauty products to edible oil in various formats. Dabur Foods, a subsidiary of Dabur India Ltd have also partnered with retailers through the concept of category management with the motive of customer

(Contd)

satisfaction and consequently generating higher revenues. It has already entered into an agreement with the Food World Retail chain to manage its juices. The Cadbury has also deployed the concept of category management in Indian marketplace.

As per top official of Provogue "the category management also works as safety mechanism as it hedges risk for the retailer". Provogue is basically an apparel retailer as well as manufacturer, the category management is helpful in allied categories such as footwear, where it does not have any expertise. It has already tied up with M&B footwear.

Arvind Mills, an apparel brand manufacturer, has also big plans to develop 'category captain model' for its domestic brands such as Excalibur, Newport and Flying Machine and other potential international brands. It is already scouting for a retailer—partner. Initially, it intends to bring mass brands under category management as luxury retailing is still nascent in India.

As per Darshan Mehta, President, Arvind Brands "Typically, the category captain model will take care of the stocking, supply chain and back end and front end manning for the retailer in the category concerned."

Star Bazaar, hyper format of Trent (Tata Group) has also plans to enter into this kind of collaborative relationship with the vendors. Neeti Chopra of Trent says that manufacturers do not save but gain in bottomline and profitability. Generally the idea is to sell higher value, higher margin items so that everyone involved in the process gains.

In consumer durable Industry, this kind of relationship is expected in the form of joint investments to create home theaters/AC rooms to sell products like higher end LCDs, Plasma TVs, DVDs, etc. This is especially true in case where product is hi-tech and where demonstration is required. The knowledge level of staff at the retailer's end is low and collaboration with manufacturer can be helpful.

Reference: The Business Line, June 15th, 2006

Exhibit 9.11

[Summary]

- ➤ Category management is fast becoming a total way of managing retail business. Under this concept, the manufacturer is involved in the making and implementation of merchandise assortment plans. It is a philosophy, process as well as an organizational concept. It is central to Efficient Consumer Response and also linked with Collaboration, Planning, Forecasting and Replenishment (CPFR).
- ➤ Increasing complexity of shopping, need for rationalisation of investment in SKUs, need for micromerchandising, availability and leveraging use of technology, consolidation among retailers, rise of mass merchandisers are the main reasons for the rise of concept of category management. Manufacturers also want to be closer to their customers.
- ➤ Category Management is a eight-step comprehensive process as defined by TPG. The first step is the defining categories by the retailers which they would like to treat as Strategic Business Units. Second step is to assign different roles to the different categories. Destination, Routine, Occasional and Convenience are different retailer defined category roles. Staples, Niches, Necessities and Fill-ins are different customer defined category roles.
- ➤ In the third step, different existing categories can be classified as Cash cows, Traffic Builders, Sleepers and Dogs according to the retailer's sales performance and profitability parameters. Defining performance measures on line with Balanced Scorecard is also very crucial step to measure future performance of the categories.
- As category management is the management of categories as Strategic Business Units, defining of strategies are crucial. In fifth step, different strategies such as Traffic Building, Transaction

Efficiency, Cash Generation, Turf Defending, Profit Generating, Image Enhancing, Excitement Creating can be adopted by the retailers.

- Various tactics supporting the strategies are defined in the sixth step. The various tactics have to be adopted to ensure survival of the retail business in a routine manner. The important tactics are Merchandise Assortment, Pricing, Promotional and Shelf Presentation. Category Plan Implementation and Review are the seventh and eighth steps in the process of category management.
- ➤ Category Captains play a crucial role in category management. They are manufacturers' representatives at the retail stores and are generally from the leading brand. They have access to the data generated at retailer's end and try to minimize competition among brands aim to promote the interests of whole category rather than brand. They can also take the help of 'Planograms' to make optimum utilization use of shelf space.
- ➤ In India, the category management is becoming very popular. Future Group, Dabur, Arvind, Provogue, Tata Trent, P&G are associated with the process of category management.

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-{Revision Exercises}

Very Short Answer Questions

1. What is a category?

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2. What is category role?

- 3. How can the category management be termed as a philosophy?
- 4. How is category management linked with Efficient Consumer Response?
- 5. What are Traffic Builders?
- 6. What are Staples?
- 7. What are Cash Cow Categories?
- 8. What is Space-Time Intelligence?

Short Answer Questions

- 9. How is the Category Management different from Brand Management?
- 10. Discuss different reasons for the rise of Category Management.
- 11. Discuss main Category Roles in the process of Category Management.
- 12. Enlist main steps in the process of category management.
- 13. Discuss the concept of Planograms.
- 14. Discuss the Strategic Quadrant Analysis in category assessment?
- 15. What are the requisites of successful implementation of Category Management?
- 16. Discuss the role of Category Captains.
- 17. What are key issues in category assessment?

Long Answer Questions

- 18. Discuss the types of strategies in category management.
- 19. Discuss main tactics adopted by the retailers during process of Category Management.
- 20. Is the category management useful to Indian retailers? What are its chances of success in Indian scenario?
- 21. How can the complexity of shopping be lessened with the help of category management?

СНАРТЕЯ

10

Pricing in Retail



After studying this chapter you should be able to understand

- ✓ the concept and importance of pricing
- ✓ the various factors deciding retail pricing
- ✓ different pricing approaches
- ✓ the overall context for setting prices

Concept

Retail price is the monetary cost paid by the customer to retailer to procure goods and services. This is also termed as consumer price or buyer price. This is the only revenue generating P of marketing mix, while other Ps of marketing—Product, Place and Promotion result in cash outflows.

In the modern marketing concept, the pricing is closely associated with value offered in product or service, though pricing is different from value of product of service. As discussed in first chapter, the value is the set of perceived or actual benefits received by customers in comparison to price paid. Value is also taken as the ratio of benefits to the customer to cost. Price is the monetary value of the product. Different customers may be paying the same price for a specific product, but value can be different for each of them.

In traditional barter trading, which was the trading through exchange of commodities, there might not have any explicit pricing of product, but certain market benchmarks were there to facilitate trading. For example, two units of commodity A might be equivalent to one unit of commodity B and three units of B might be equivalent to two units of C and so on. But this system became complicated due to proliferation of products and expansion of trade. Gradually monetary pricing system became vogue economy.

■●■ Importance of Retail Pricing

For average Indian consumers and for that matter consumer anywhere in the world, pricing has always been a sensitive issue. This has been the reason for the success of Wal-Mart and Subhiksha alike. The importance of Pricing can be determined from the following points:

• Achieving Profit Targets: Setting the right price is an important step towards achieving profit and growth objectives. Competition in the environment may force changes in pricing strategies and tactics adopted by retailers and resultant profits.

There are different ways for achieving same profit targets in retail within same product categories. In the first scenario, sales volume may be low, but percentage profit margins would be higher. It is also termed as **profit maximisation** approach.

In the second scenario, profit margins may be low, but sales volume is high. That is basically **Sales Maximisation** approach. In between these two extreme situations, there are moderate profits on moderate sales volumes.

- Impact on decision about Retail Format: Decision about retail format is the decision on pricing. Supermarkets and hypermarkets offer competitive prices. The discount retail formats like category specialists, value retailers, off price retailers are specifically built around pricing strategy.
- Competitive Positioning: The competitive positioning of the retailer among same retail formats depends upon pricing strategy. Pricing is the potent tool to compete in the retail environment. This can be gauged from the fact that we use the term Price Competition to differentiate it from Non-Price Competition.
- **Perceived Value of Products:** In many cases, price is associated with perceived quality of the product. If price is too low, customers may perceive it of lower quality. It is especially true in case of services, branded and luxury products. Here it is important to mention that luxury is a relative term. A product which is a luxury item for a customer with a poor purchasing power may be just a basic necessity for a customer with high purchasing power.

Pricing is especially important in retailing of food and grocery, where success of the business depends upon repeat customer. The perception of fair pricing is crucial for repeat customers.

■●■ Factors Affecting Pricing

Pricing, on one hand, involves a deliberate decision-making process on the part of the consumer. On the other hand, there is a plenty of scope for research on the part of the retailer to decide about pricing issues. In the prevailing environment, the pricing depends upon more than one factor in most of the cases. They can be divided into two main categories:

- Macro Environmental Factors
- Supplier-Retailer Specific Factors

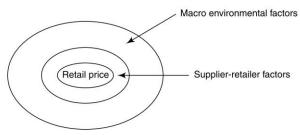


Exhibit 10.1

Macro Environmental Factors

The retailers operate in the larger economic environment. The economic developments also influence price levels. As retailers role and power is increasing, the impact of macro level changes at store level is becoming more direct and immediate. Industry level factors are being discussed as a part of macro environment. The various macro factors have been discussed as under:

- 1. Dynamics of Demand and Supply The pricing depends upon demand and supply equation.
 - The higher demand and less supply results in higher prices and vice versa. This is specifically true in case of basic goods like food and grocery.
 - The increase in food prices during recent years can be partly attributed to diversion of food crops towards production of ethanol which is mixed up with petrol. This has created an imbalance in demand and supply of food meant for human consumption, resulting in price rise. The price rise can also be attributed to speculative trading in oil and other commodities as it happened in 2008.
 - Price elasticity measures responsiveness of potential buyers to changes in prices.

Price elasticity = Percentage change in demand/Percentage change in price.

Suppose the price of a product reduces by 10% and demand goes up by 25%, the price elasticity of demand is 25/10 i.e. 2.5.

If price elasticity is less than 1, then the demand is termed as inelastic. It means that demand is less sensitive to price changes like in food grains. But if the price elasticity is more than 1, like in fruits, then it is elastic. If price elasticity is 1, then change in demand is proportionate to change in price.

Retailers should charge lower price for products with high elastic demand and can charge higher prices for products with inelastic demand. Knowledge about price elasticity can be used by retailer for price discrimination. Price discrimination is a practice of charging different prices from different customers for the same product.

- Price level depends upon performance of economy, as well as fiscal and monetary policies. If the
 government adopts liberal monetary policy, then there is more money chasing the same goods and
 the prices may show inflationary trend. If the economic system is efficient and productive, the
 price levels come down.
- **2. Prices of Key Products** The prices of key products like oil influences prices across different industries as it is used for transportation and as a key input for many industries like synthetic yarn material used for polythene, etc. Any increase in transportation cost increases the prices of bulk commodities which are transported to large distances for consumption.

Take the example of cement. Increase in oil prices increases transportation cost which will further increase cost of inputs for production of cement. Increase in cement prices will increase cost of housing and consequently retail prices of housing units will also increase. Same is the case with steel.

In India, where market is not yet a very developed market, value addition due to branding and technology is not very high and merchandise prices are primarily dependent upon cost of inputs. As a result, even a small increase in input cost may cause immediate increase in prices. This is especially true in case of food items.

- **3.** Market Structure and Nature of Competition Basic market structures also help in understanding pricing dynamics. There are four types of market structures with respect to competition and pricing.
 - Monopoly: Only one seller of a product, can dictate prices, e.g. Indian Railways
 - Oligopoly: Few sellers of a product, selling same products or close substitutes of each other. Market is price sensitive, e.g. cement, petrol
 - **Perfect Competition**: Many buyers and sellers. Each player is relatively small, not in a position to influence market prices independently, and is a price taker. Prices are lowest, e.g. fruit and vegetable sellers
 - Monopolistic Competition: Large number of buyers. Sellers try to differentiate their products from each other through advertisement, etc. though end use of each product is largely same. Competition is predominantly non-price in nature, e.g. consumer goods like soaps, shampoos and cosmetics

Now the pricing has not remained simply a question of demand and supply, especially in case of fashion products where demand is not very certain. The competition can assume different dimensions like local, national and international. If competition is very intense, it is termed as hyper-competition.

- **4. Government Policies** The government policies play an important role in deciding about pricing of many essential commodities and public utility services.
 - Government subsidise many basic products such as food grains, oil, etc. to keep prices low. Market
 price levels in case of foodgrains such as wheat and rice are affected by Minimum Support Price
 offered by the government.
 - Governments in case of modern welfare states, try to keep formation of cartels under check. During
 early part of 2008, the government put pressure on steel and cement manufacturers to lower prices
 of steel and cement.
 - In addition, the regulatory authorities like Telecom Regulatory Authority of India (TRAI) regulate pricing of telecom services. Generally, public sector banks offer various services at lesser prices that reflect government policies.
 - Another potent tool with the government to affect pricing is taxes and duties. During last few
 years, the government has reduced import duties which is why foreign goods have been flooding
 Indian market, inducing more competition in the market. Excise duties have also come down. The
 introduction of VAT has also moderate impact on prices.

Fundamentals of Retailing

5. *Increased Consumer Awareness* The level of awareness of consumers and their negotiation skills have impact on pricing.

- Presently, due to internet, the consumers are in a better position to compare prices of different product sources. This availability of information about products and price options puts pressure on retailers to keep their prices low.
- Government has launched multimedia campaigns like "Jaago Grahak Jaago" to educate consumers
 about their rights and various related issues. The Department of Company Affairs launched "Paisa
 Hamara Faisla Hamara" on investor awareness and education. Consumer Act, 1986 has significant
 impact on consumer awareness.
- **6. Seller Concentration Ratio** Seller concentration ratio is the combined market share of few retailers. In Australia, the top four retailers enjoying 80% market share in food and grocery and thus, these retailers take lead in setting the market price. This ratio is very low in India in most of the product categories, but can increase in categories like food and grocery.

In addition to these largely economic factors, the pricing is also affected by retailer and manufacturer specific factors.

Many times, the retail prices of a product are dependent upon the cost of related or complimentary service. In case of housing sector, the demand for a residential unit is linked with prevailing interest rates. In most of the property deals, the property is financed by a bank or a financial institution. In case the rate of interest is lower, there is higher demand for property and prices may go up. The prices of automobiles can be further dependent upon petrol prices.

Exhibit 10.2

Supplier-Retailer Specific Factors

Here supplier means any vendor including of manufacturer. The cost of inputs is taken as the benchmark for pricing decision. The retailers procure their merchandise from manufacturers and other suppliers. All channel members play some role at one stage or another, independently or in combination with each other, for pricing the product. The following manufacturer and retailer related factors are important for pricing the products:

- **Business Strategy of Retailers** Sometimes pricing decisions are inbuilt in the philosophy of the retailer. For example, Wal-Mart's mission statement cites "Save Money, Live Better." The pricing largely depends upon the cost of inputs, especially in case of food and grocery retailers. The chain retailers with integrated supply chain and big size are able to negotiate better prices with the vendors and consequently, offer lower prices and pass on benefits to their customers. Location is also a strategic factor for deciding prices of merchandise items.
- Type of Merchandise and Seasonal Factors Pricing depends upon type of merchandise. Generally, the basic or staple goods are more competitively priced in comparison to fashion merchandise. The prices of seasonal products are higher during the season. For example, woollen items are priced at a higher rate during winter season.
- Retail Format and Customers Services Pricing is largely dependent upon format and services offered by the retailer. The higher the services offered by the retailer, the higher is the price of products. The convenience retailers are able to charge somewhat higher price because of the reason that they offer convenience in terms of distance and time to the people residing in nearby localities.

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In the first chapter, under retail value we discussed that Airlines or Railways offer different service options to customers and charge accordingly. In general, prices at hypermarkets and supermarkets are economical in comparison to speciality retailers, boutiques and department stores.

• **Types of Buyer** The purchasing power and life style of buyers also affect pricing charged by the retailer. There are different categories of customers such as upper class, middle class, lower class, etc.

Global retailers entering Indian markets are adopting pricing strategies different from other parts of world, keeping in view local sensitivities. For retailers and manufacturers, there may be separate brand and pricing strategies for bottom of pyramid customers. Here, the purchasing power is low, but market size is substantial.

In case, the store is operating in rural or semi-urban areas, the product and price range may be different from other stores. Charging different prices to different segments of customers is also known as dynamic pricing.

- Quality, Functional Features and Packaging of Products Quality perception among consumers also impact pricing of products. Japanese goods fetch better prices on the basis of favourable perception about quality and packaging. Same thing can not be said about Chinese merchandise.
- Quantity of Purchase Sometimes pricing depends upon the quantity of purchase. Example is Cash and Carry Format or Wholesale Clubs which even charge membership fee from customers to enable them to make quantity purchases.

Reason for success of Sachet Revolution in rural areas and small towns have been the pricing and innovated packaging adopted by consumer goods manufacturers. By offering consumer products like shampoo in small sachet sizes of 5, 8, and 15 ml for Rs 1, 2 and 3, respectively and talcum powders or cold creams in size of 20 gms for Rs 5, they induced rural consumers to buy and use the products. However, a deeper analysis will indicate that these small quantity packs are costlier but, sometimes consumers do not want to spend big amounts on large quantity packs. Convenient to use and carry during travel are also important factors for success of Sachet Revolution.

Exhibit 10.3

• **Quality Certifications** The products having quality certification like BIS (Bureau of Indian Standards), BEE (Bureau of Energy Efficiency), AGMARK (Agriculture Marketing), FDA (Food and Drug Authority), etc. generally command better prices in the market. Now, with environmental issues becoming important, some consumers are willing to pay some extra amount for green products.

The reason for popularity of organic food is due to the fact that it is grown without any pesticides and fertilizers. The retailers are devoting separate sections for it. In the same way, if a home furnishing store is stocking carpets with certification or declaration by the manufacturer regarding no use of child labour, these can fetch better price for the product.

• Manufacturer Suggested Retail Prices In consumer goods, pharmaceutical products and many other product categories, manufacturers mention Maximum Retail Price (MRP), which puts a cap on the price to be charged by retailers. This has been discussed in the later the part of this chapter also.

■●■ Approaches Adopted in Pricing of Products

There are different approaches for the pricing of goods and services. The approaches can be used individually or in combination with each other. The various approaches adopted by the retailer are as follows:

Fundamentals of Retailing

- 1. Cost-based Pricing
- 2. Competition-based Pricing
- 3. Psychological Pricing
- 4. Discount Pricing
- 5. Every Day Low Pricing (EDLP)
- 6. Market Penetration Pricing
- 7. Value-based Pricing
- 8. Dynamic Pricing

1. Cost-based Pricing

This is the most basic approach adopted by retailers and important for long term financial viability of business. Under this approach, pricing is done by taking cost and desired profit into consideration. Profit is calculated as some percentage of the cost. Though the actual profit of the business can only be ascertained at the end of financial year, but pricing should take care of profit targets from the very beginning. Here it is important to understand the concept of mark-up.

Retail Price = Cost to Retailer + Target Profit

Here, it is worth-mentioning that during inflationary times whenever there is increase in prices by suppliers, the retailers generally tend to absorb that increase and do not increase the prices in the short run. They wait for stabilisation, but in the long run, prices may increase. The same is the tendency of manufacturers. Some manufacturers, instead of increasing price, decrease the quantity so that customer does not directly feel the pinch.

The economies of scale bring down the average unit cost which increase the profit. The idea about components of product cost, breakeven analysis and price mark ups is important for better understanding of cost based approach.

Components of Product Cost There are two main components of product cost. First is Variable cost and second is the Fixed Cost.

Variable Cost This includes procurement price of the product and any transportation or handling and primary packaging charges. The procurement price is also termed as Direct Cost.

Fixed Cost This includes operating expenses like store operational expenses like salaries paid to store staff, store rent, sales promotion and other administrative expenses. These are also termed as overhead or indirect expenses and are more or less fixed in nature. These expenses have to be incurred irrespective of volume of sales.

Retailers try to maximise sales to make optimum use of expenses costs are fixed in nature. The price of the product should cover variable and fixed cost. As per one estimate, logistics cost in case of India is at least 5% higher in comparison to other parts of the world. The retailers like Wal-Mart has been able to keep its cost low because of integrated supply chain and low real estate cost as its stores are located in sub-urban areas.

Generally in case of service retailers, operating costs are usually higher in comparison to variable or direct cost. The proportionate initial investment in fixed assets is usually higher in comparison to merchandise retailers.

Suppose, a service retailer, like a hotelier has to make huge investment in setting up infrastructure—constructing rooms and banquet hall, furnishing them, making parking facility, etc. Thereafter they have to mainly recover operating costs like staff salaries, there is greater scope for flexibility in pricing and price adjustments in comparison to merchandise retailers. They may offer substantial discounts during lean seasons. They increase their prices during peak seasons.

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On the other hand, merchandise retailers have to recover both fixed and variable cost (purchase cost), so they do not enjoy much flexibility in pricing. In any case, a merchandise retailer would never like to sell any good below purchase price.

Exhibit 10.4

whereas

Break Even Point Retailers like any other business are interested in ascertaining at what level their business will become profitable. Break Even point is the amount of sales which must be done so that business is able to recover all types of costs and is not making any loss or profit. The business starts making profit beyond Break Even Point. Understanding of break even analysis and profit targets helps in pricing decisions.

Break Even Point (in Rs) = (Fixed Cost/Contribution) × Unit Sales Price Contribution = Unit Sales Price – Unit Variable Cost

If the break even point is low, then there is scope for reducing prices and vice versa, depending upon other factors like competition and profit targets. As the breakeven analysis is based on certain assumptions, it may not applicable in all practical situations. It can be used in combination with other approaches.

In case the retailer is to calculate the desired sales to achieve a target profit figure, then the formula is Desired sales = (Fixed Cost + Target Profit)/Contribution × Unit Sales Profit

Solved Example

Suppose the variable cost is Rs 10, unit sales price is Rs 18, fixed cost is Rs 8,000 and profit target is Rs 4,000, calculate breakeven point and target sales.

Break even Point = $8,000/(18-10) \times 18 = Rs 18,000$ Desired Sales = $(8,000 + 4,000) / (18-10) \times 18 = Rs 27,000$

Sale of Rs 27,000 is required to make profit of Rs 4,000.

Exhibit 10.5

Target Costing Generally Japanese manufacturers take realisable market price or fair price into account at designing and engineering stage. This approach is termed as Target Costing or Price-based Costing. We can take example of Nano Car by Tata Motors. The target sales price of car is Rs one lac (exclusive of taxes). The company has to take this into account at initial stages like designing, product development and vendor selection. Even the decision regarding distribution has to take this into account. The same was the case with Maruti 800 when it was advertised as a car affordable by masses.

Suppose, the fair retail price of a product as per its features and benefits should be Rs 120, and target combined profit of manufacturer and retailer is 50%, then cost of product should not be more than Rs 80 (Assuming that there is no taxes, logistics cost, etc.).

Price Mark-Up Price Mark-up is done by taking cost of the product as base which is summation of direct and indirect cost. Information about direct cost is readily available from invoice and inward carriage documents. But, calculation of indirect cost is not so easy. It is usually calculated as some percentage of direct cost. This percentage is also termed as Overhead Rate. Some approximation may be used, based on past data of retailer or industry average, in calculations of overhead rate.

Unit Cost of Merchandise = Unit Direct Cost + Unit Indirect Cost

Whereas indirect cost is taken as some percentage of direct cost. We can understand the concept better with the example mentioned in Exhibit 10.6.

Fundamentals of Retailing

For example, if direct cost is Rs 10 and as per past data, the indirect cost is 40% of direct cost (this 40% is also be termed as overhead rate),

Then total cost = Rs 10 + 40% of Rs 10 = Rs 14.

Retail Price = Total Cost + Target Profit, where as target profit is some percentage of total cost.

Assume that target profit is 50 % of total cost in this case. Then,

Retail Price = Rs 14 + 50 % of total cost = Rs 21

Exhibit 10.6

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Often the target percentage profit margin is added to the total cost of merchandise as given in the example. Mark-up depends upon on product line. In case of staple items like sugar, the mark-up is very low, while in case of fashion items, mark-up is higher.

While deciding about mark-up, the retailers should take into account likely price discounts, shrinkage, obsolescence and other anticipated losses. They should still be able to achieve a satisfactory profit. This is specifically true in case of fashion oriented, seasonal, perishable or technology oriented products.

Sometimes mark-up on retail is also calculated by dividing rupee mark-up by retail price. The retailer should have some basic idea about the various components of the cost of the product and break even analysis, so that pricing decision is based on facts.

Keystone Pricing It is also cost-based pricing. E.g. simply fixing retail prices as double of the purchase price is the thumb rule under keystone pricing.

- This can better be applied in a situation where product is generally not branded with unit price of the product is low.
- Usually the sales volume is low, but it is compensated by high profit percentage.
- Due to intense competition, this pricing method may not be applicable in most of product lines kept by retailer.

Example for Keystore Pricing is product like comb from a local brand, costing Rs 30 a dozen, may be easily sold for Rs 5 each.

2. Competition-based Pricing Approach

Earlier in this chapter, we discussed about types of market structures, which are basically about competition in the market.

- Usually shoppers explore many choices and want to get maximum value for the money they want to spend.
- Retailers always try to offer maximum value to customers and at the same time want to make reasonable profit.
- Customer is benefitted because of competitive pricing, it also helps in development and expansion of market.
- The competition-based pricing approach becomes more relevant at the peak stage of product life cycle, when many players are there.

Here example of telecom sector in India can be cited. As a result of competition, the consumers have been able to get telecom services at a lower prices. Thus, it resulted in lower Average Revenue per Unit (ARPU). But at the same time, it resulted in rapid expansion of total market size and thus, more number of subscribers, penetration into rural markets, increasing sales volume and telecom companies having good profits in recent years. The same thing is likely to happen in case of Direct To Home (DTH) market with entry of many players such as Dish TV, Tata Sky, Airtel's Digital TV, Sun TV and so on.

Below Competition Pricing It means pricing products lower than the average price prevailing in the market.

- This strategy can work well if the retailer is able to source merchandise at the best prices, keep the
 operating cost low even with the help of technology, achieve economies of scale and develop a
 marketing strategy to focus on price.
- There are retailers who price their products just below the market leader's prices. Suppose, an apparel retail store pricing their apparel product range below the leading departmental store of the locality for the same brand.

Individual Wal-Mart stores regularly compare their prices with the surrounding stores and make adjustments in their prices accordingly. Thus, different Wal-Mart stores in same geographical area may have different prices according to local competition.

Above Competition Pricing The terms premium pricing or lifestyle or exclusive pricing can also be used in this context.

- It is due to quality, unique services, location, excellent brand, image etc.
- Generally, the retailers catering to niche segments of market adopt this kind of pricing.
- This can be due to exclusivity, uniqueness and novelty value of products. The designer clothes, handbags and other accessories and handicrafts etc are examples of certain product categories.
- It also happens due to the fact that a product is feared to be perceived of inferior quality, if the price is kept too low.

In between these two situations, a good number of retailers price their products at market level.

3. Psychological Pricing Approach

It is based on the assumption that certain prices have impact on buying behaviour. Whatever is the level of pricing, the retailer tends to set the prices in such a manner that it is perceived to be fair by the customer. The different dimensions of psychological pricing have been discussed here.

Odd Pricing Sometimes, the retailers use odd figures for setting prices. They may end up in digits like 5, 7 or 9 as it has more impact on the consumer. It would automatically create interest in the product. This is also called odd pricing. The customer may round it off to 99 or 90 instead of Rs 100. In the same manner, the BPL priced its TV at Rs 10,900 instead of Rs 11,000 which is otherwise more convenient for pricing. The Sony India also prices all of its products like LCDs, laptops, cameras in the same manner.

For decades, it was a price tag that drew instant jokes, comments and sometimes even arguments over consumer rights. But ending it all, Bata India has withdrawn its famous 95 paise pricing. Now Bata chappals, shoes and other footwear are priced without the 95 paise. Bata prices still stop at '9' such as Rs 499, Rs 899 and so on.

"I have seen it almost throughout my stint with Bata", a manager of a Bata showroom, who has put in around 40 years with the company, said. "It would automatically create interest in the product". Bata prices always have a psychological impact on the prospective buyers as it fell short of an amount that might have looked like a high price.

Also, the price tag was devised to communicate to customers that Bata values even their five paise. "We used to religiously return the five paise in those days when the coin was available", he said. Returning the five paise to customers was becoming an issue. There are people who would insist on getting it back. Five paise have now gone out of circulation.

But the company did try to keep the price going on by trying out various things. "We used to offer customers candies, or told them that for every five paise they did not take back, we would put another five paise and donate the amount to Missionaries of Charity. But we realised later that no such thing was working", the manager said.

Reference: Hindu Business Line, August 3, 2005

Premium pricing It is the practice of keeping the price of a product or service artificially high in order to develop favorable perceptions among prospective buyers, based solely on the price. The practice is intended to exploit the tendency of buyers to assume that expensive items enjoy an exceptional reputation or represent exceptional quality and distinction.

The pricing by Gucci, Louis Vuitton, Armani, Levi is Premium Pricing. Then there are handmade items and High-Tech products which are sometimes called over-engineered, whose annual production is low or deliberately kept low and even distribution is selective as the buyers get the satisfaction of being privileged owners, fall under psychological pricing approach. Examples are Swiss brands in watches.

4. Discount Pricing Approach

Gone are the days when the retail stores used to hold sales twice or thrice a year and customers expected to pay full price for rest of the year. While buyers may not receive any tangible benefit through discount pricing, this approach is as good as psychological pricing.

- Discount pricing has become a natural expectation of the customer. The problem, however is, that some customers are so obsessed with discounts that retailers have to design some discount scheme which may not offer any real benefit to customer.
- Sometimes, this approach is also called **High/Low approach** as discount is offered at high markup prices. This is true in case of fashion retailers. When the fashion is hot, the approach is to make money as quickly as possible by offering discounts and when it is not so popular, the discount is extended to get rid of the excess stock.
- A retailer should not try to act like a discounter, if actually they are not. Entering price war with competitors may prove to be a trap in the long run and change expectations of the customers forever.

Discounting generally means direct reduction in the price at store and/or it can be in the form of coupons, rebates, end of season price reductions and promotional markdowns.

Price Markdowns Earlier, we discussed about price mark-ups. The purpose of mark-ups is to ensure profitability while the purpose of mark-downs is to increase sales or promote a product.

- Though the retailers may charge different prices from different customers depending upon the
 discounts extended, yet the retailers would like to adopt uniform policy for discounting when the
 prices are well advertised and displayed with merchandise.
- The mark-down percentage can be calculated as:

Markdown (in percentage) = Original Price Discounted Price/Original Price × 100

• These days software is available to calculate mark-down percentage. These take into account nature and time of purchase of merchandise.

Discount Options before Retailers Though devising a discount scheme depends upon the creativity of the retailer, some of the popular discount schemes adopted by retailers are given below:

- 1. Flat Discount Here a certain figure is given for discount. Say, discount is 50%, it means that discount is 50% on each item. In many cases, the direct sales figure is given along with original price for the purpose of comparison.
- 2. Quoting Range of Discount Here both the lowest and highest discount figures are given. Here customer may have to seek clarification about discount figures. For example discount of 20-50%. Here, some lustre of discount may be taken off by the figure of 20% as it appears first in the range.

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- 3. Using Highest Figures of Discount To remove anomaly as given in discount range, only the upper figure for discount is highlighted. Like, discount up to 50%. Only selected items may be offered on 50% discount.
- 4. Multiple Discounts Under this option, discount calculation may be done in more than one step. Like 50% + 40%. Though the discount calculates to be 70%, few customers may get the impression that it is more than 70%. Koutons, Priknit often use multiple discounts.
- 5. Discount Slabs Discount can be offered in slabs also. Like for purchase up to Rs 1000, discount is 10%, for purchase between Rs 1,000-2,000, discount is 15% and so on.
- 6. Spot Discounts Now the trend is emerging that retailers make announcements about discounts in the store itself. These discounts are offered for a very short duration, say one hour or two hours, especially during lean business hours. This can also be seen as dynamic pricing.
- 7. Offer of Additional Product/s with Purchase of Certain Products Instead of offering discount in percentage figures, it can like "Buy One, Get One", "Buy two, Get One" and so on. Through these type of schemes, retailers want to clear maximum stock.

The retail formats like Big Bazaar in India draws huge crowds because of discount schemes like sabse sasta teen din across its different stores apart from its routine sales compaign 'is se badiya aur sasta kahin aur nahin milta'.

Discounts are mostly offered at the **End of Season Sale** (EOSS). It helps in generating revenues for investment into coming season merchandise, making space for new items and creates excitement and helps in advertisement of the store. Spykar usually offers 50% EOSS discount, in the month of July.

Percentage of Customers shopping on discount of 20% and above				
	2003	2006	2008	
All the times	8	6	3	
Most of the time	10	9	15	
Sometimes	31	36	38	
Rarely	27	33	33	
Never	15	16	12	

Reference: Retailer, India edition, August, 2008.

Exhibit 10.9

Coupons Sometimes, a retailer or manufacturer or both, instead of offering any cash discount may, issue coupons to its customers for specific product or amount of purchase. The customers may produce coupons at the time of purchase and claim the benefit.

- Coupons can be made available to prospective buyers through mail catalogs, books and magazines, newspapers, etc.
- Now-a-days, internet coupons are also becoming popular. There are no postal charges. The user can take direct printout.

Rebates A rebate is also a method of discount pricing and customers generally claim it from the manufacturer by presenting the proof of purchase. Many times, the customers do not bother to claim any benefit especially, when the amount of rebate is low. Thus, manufacturers may prefer this method. Moreover, it is to be claimed after the sales has been made.

Gift Vouchers Gift vouchers are of some specific percentage of sales amount or some fixed amount against a range of sales amount. These are usually redeemable against future purchases at the retail stores.

5. Market Penetration Pricing Approach

In certain situations, the pricing is referred as predatory pricing when the retailer sells or rather dumps its products in the market at very low prices.

- This may make prices of other retailers uncompetitive and business financially unviable. They may even leave the market. This may not be permitted by law in most of the countries.
- Only retailers with deep pockets can afford predatory pricing approach.

Another soft variant of this approach can be referred as *bait and switch* where discount is offered on few basic items like atta (wheat flour), sugar, pulses, potatoes, onions, etc. but the retailer makes money by cross-selling other products.

Sometimes low penetration prices are necessary for making the product or concept acceptable to and popular among customers. Here, we can take the example of insurance sector. Due to competition and lower acceptance of insurance products among Indian consumers especially, rural customers, insurance companies are introducing customised and innovative products at economical prices and pushing their products into rural markets. Right now, the insurance companies are not making good profits or are into losses, but with the passage of time as the market expands due to low penetration prices and Indian consumers accept the concept of insurance, they can make good profits.

Exhibit 10.10

Loss Leaders If retailers sell certain products below cost, these are called loss leaders. It helps the retailers by attracting customers in to the store; or by selling out of fashion or odd size products. The retailers can make-up for the loss made on sale of one or few products by cross-selling other products to customers.

It is important to mention that sometimes retailers initially have to suffer losses to make the concept or product popular. Amazon.com, for example, has shown profit after many years of its operations.

6. Every Day Low Pricing

Sometimes, it is referred to as discount technique. Under this price method, retailers offer discounted prices on continuous basis though the amount of discount may not be very high.

- The discount figures are usually not heavily advertised, especially in percentage terms. The heavily discounted items may be advertised separately in the store.
- The price offered may not be the lowest price in the market, but likely to be less than average price prevailing in the market.
- Generally hypermarkets, supermarkets offer EDLP on food items and fast moving consumer goods.
- EDLP helps in consistent traffic flow.
- For EDLP to be effective, it has to be supported by Every Day Low Cost (EDLC). So, efficient and integrated supply chain is very important. Wal-Mart Subhiksha, Margin Free, 6Ten, Reliance, Food Bazaar, Big Bazaar tend to offer EDLP.

In Warehouse Clubs like Sam Club, Costco, the consumers can avail discounts on bulk purchases. The consumers may have to pay annual membership fee to these stores to avail this benefit on regular basis.

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This approach can also be referred as *always low prices*.

Subhiksha, a supermarket retail chain, has tied up with farmers to buy their product on current price-levels under a preferred buying arrangement at different places. Quality would be ensured by grading process at the time of placing orders and delivery. The single product discount would be provided to the consumer at 9.5-10 per cent rate. Subhiksha operates in four verticals—telecom, supermarket, fruits & vegetables and pharmacy. It offers no-frills retail price on the Every Day Low Price (EDLP) model and is eyeing substantial share in the markets where it is operating.

Reference: Business Line September 22, 2006.

Exhibit 10.11

7. Value-based Pricing

Value-based pricing depends upon the value and returns that it can offer to customers over a period of time.

- Generally, this form of pricing is applied to tech-oriented products and innovative products.
- This is usually the most profitable form of pricing.

Suppose the price of product is Rs 10,000. The cost of the product to retailer may be only Rs 4,000. The customer expects benefit of Rs 2,000 per month from the product. Thus, the price paid by customer can be recovered in just five months. The customer may have to pay price of Rs 10,000, in case no other option is available.

In **Skim Pricing** also, manufacturers generally tend to set high price for the innovative product to recover product design and development cost.

- The retailer also tends to make more profits in absence of competitors or due to low competition during initial stages of product introduction. With time, more competitors enter the market and prices come down.
- This approach makes more sense when Product Life Cycles of products are shortened.

Initially, the price of mobile phone set was very high as a it was introduced as a luxury product and a technological breakthrough, but now it is affordable even to masses. Usually, the retailers margins are also higher during introductory stages. Sometimes value prices are associated with value retailing also.

8. Dynamic Pricing

The concept of dynamic pricing has become very popular these days, especially among service retailers. It is basically a tactical approach wherein the price setting is done almost on a continuous basis. Different prices may be charged from different customers. It is like a hotelier, may set daily room tariffs depending upon occupancy rate, tourist inflows, airlines bookings, etc. It becomes like "rate of the day". Room tariffs may show some variations even during different parts of the day depending dynamic demand and supply situation.

The spot discount discussed under discounting approach is also a type of dynamic pricing, applicable in case of merchandise items. The discount hours in the store are also designated as "Happy Hours".

Other Approaches and Concepts Used in Context of Pricing the Products

In addition to above main approaches, there are many other sub-approaches and terms associated with pricing.

Manufacturer Pricing

In India, to bring standardization among the prices charged by different retailers, especially in case of consumer goods and pharmaceutical products, the manufacturers have to mention Maximum Retail Price (MRP) on the product so as customers do not pay above that price.

- MRP is inclusive of all kinds of taxes.
- There are various central, state and local governments' taxes on manufactured products. The tax structure of each government may be different.
- To minimize the anomaly of different prices due to different taxes structures, the concept of MRP (inclusive of all taxes) was introduced.
- The retailers can avoid price competition, at least to some extent. The consumers also pay not more than a suggested price.

The manufacturer generally offers trade discount to the wholesalers say, 30% of MRP. The wholesalers may offer discount of 20% of MRP to retailer. Thus, a reasonable profit is assured to channel partners. The retailers may offer discount to customers out of their trade discount. But sometimes suppliers discourage retailers not to offer any discount or only very limited discount to avoid price competition among dealers.

Price Bundling

Sometimes, the products and/or services can be bundled together to create value for customers with affordable pricing. Otherwise total cost of all of items in package, if purchased individually, is much higher.

- Example is 'Complete Health Package' where all main medical tests are done for a fixed amount.
 Some automobile, consumer durables, PC, laptop and FMCG sellers bundle products and after sales services together.
- Other examples are Johnson Baby Kits, Festival gift packs by Cadbury's, Nestle, Haldiram and many other suppliers and retailers. Dry fruit retailers make gift packages offering a variety of dry fruits during festivals..
- Thali system and buffet lunch/dinner at restaurant is also based on price bundling concept.
- The simplest example can be taken of peddlers in buses selling few items of daily needs like pen, pencil, diary, comb, etc bundled together for Rs 10 or Rs 20 to make the overall offer attractive.

Single Price Points

It is a pricing method under which retailer sells all the products at the same price. Suppose each item in the store is priced at a specific price such as Rs 50, Rs 99 or Rs 100.

- This reduces scope for further negotiation by the shopper and enhances appeal to the customer. The examples are Dollar Tree stores and 99 Cents Only stores.
- In busy market places one see road side peddlers offering apparel, kitchen accessories, cup and mug, plastic toys, ceramic items and porcelain products and plastic items at single price
- More organized retailers are getting into this type of retail format.

Multiple Price Points

Under this technique, the various pricing options are offered to customers so as to appeal to maximum target segments, though the quality of the products will also vary. This is basically increasing depth of the product category.

- Manufacturers introduce different brands to offer different quality products at different price points.
- The introduction of private labels also serves this purpose as they usually priced below manufacturer's brand. The hypermarkets, supermarkets, category killers and other discount retailers introduce private labels to offer more price options to their customers. This also enhances satisfaction to the customers as they get better assortment and variety.
- This approach of multiple price points may also be termed as **Price Lining**.
- Multiple Price Points may include popular price points which readily appeal to the customer. It
 depends upon product line. For example Rs 50 for a lunch, Rs 500 for a pair of jeans, Rs 50-100
 for watching a movie in a Cineplex are examples of reasonable prices.

The McDonald in India has also priced certain products at popular price points like McBurger at Rs 20 which is quite attractive for most of the young consumers. Big Bazaar, entered into contract with Arvind Mills, so that it is able to offer Ruf n Tuf branded pair of jeans at Rs 299.

To sum up all the concepts and approaches of retail pricing, it would be prudent to say that pricing strategy developed by retailer is basically combination of many approaches. Cost based pricing will always be the basic approach as retailer would always like to make some reasonable profit to survive. Other approaches are build around it. The right product price is the price that most of the consumers are willing to pay, while providing a profit to the retailer.

■●■ Certain Guidelines of Pricing

- Price must be based on thorough market research and should offer value to customer.
- Pricing should be profitable to support future growth.
- Pricing should be able to recover cost and always less than fair price, the price consumer may be
 willing to pay. Perception of fair pricing by retailer is a motivating factor for repeat purchases and
 also a word of mouth advertisement.
- Pricing should be consistent with image of the retailer.
- Pricing should be done in such a manner that it is able to absorb at least some changes in sales volume. Breakeven analysis can be helpful in this regard.

[Summary]——

- ➤ Retail price is the price paid to retailer to acquire goods and services. It is closely linked with value. It is important to achieve profit targets and competitive positioning, decide about retail format and affects perceptions of customers about value.
- ➤ There are two types of factors affecting retail pricing—macro environmental and supplier-retailer specific factors. The demand and supply, prices of key products or commodities, market structure, government policies, increased consumer awareness, seller concentration ratio belong to first category. The retailer—supplier factors are: business strategy, type of merchandise offered, retail formats, buyer specification, quality and quantity to be purchased.
- > There are different approaches adopted for deciding about retail prices. The cost-based approach takes into account purchase price and target price. Understanding various concepts like breakeven point, components of cost and mark-ups helps in making this approach more practical. Competition-based approach suggests making pricing adjustments according to the level of competition—it can be further below competition, above competition or at par with competition.

- According to psychological approach, certain pricing affects buying behaviour. Odd pricing means price ending in odd digits such as 5, 7 or 9 which arouses initial interest among customers or pricing like Rs 990 or Rs 10990 which gives impression that retailer or supplier offers value to the extent possible.
- ➤ Discounting approach aims to make buying appealing to customers by offering some percentage of discount or offering rebates, coupon or gift vouchers. The mark-down is also associated with discounting. Closely linked with discounting is the market penetration price which is generally offered during introductory stages.
- ➤ Every Day Low Pricing (EDLP) approach aims at offering consistent low prices to customers on continuous basis. On the other hand, dynamic pricing concept means making price changes according to demand and supply or market conditions on almost continuous basis. This approach is becoming popular as market conditions are themselves becoming uncertain and volatile.
- ➤ There are other approaches like price bundling in which many items are clubbed together and offered at attractive price. In multiple pricing points approach, customers get more options in terms of products and price points.
- In single price points, all items in the store are offered at a single price. In case, Maximum Retail Price is mentioned on products in India, manufacturer decides about the price.

In nut shell, one can say that there is no best approach as far as pricing is concerned in most of the cases. The increasing role of services in retailing, introduction of private labels have only complicated the pricing scenario. In a retail store, on one category of merchandise, the pricing will be cost-based, on another, it can be penetration pricing and so on.

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—[Revision Exercises]

Very Short Answer Questions

- 1. How price is related with value?
- 2. What is the importance of break even point in pricing decisions?
- 3. Differentiate between variable cost and fixed cost.

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- 4. What is price-based costing?
- 5. What is high/low approach in pricing?
- 6. Discuss MRP?
- 7. What is skim pricing?
- 8. What is price lining?
- 9. What is odd pricing?
- 10. How does pricing is affected by type of buyer?

Short Answer Questions

- 11. How the pricing is related to retail formats?
- 12. Differentiate between price mark-up and price mark-down with the help of an example?
- 13. Discuss manufacturer suggested retail price in context of India?
- 14. What is price bundling? Discuss how is it advantageous to the retailers and customers?
- 15. What is multiple-price points approach? How private labels help in it?
- 16. Briefly discuss pricing under different market structures?
- 17. What is dynamic pricing approach? Under what conditions is this approach adopted?
- 18. Discuss importance of pricing in retail?
- 19. Discuss concept of every day low price. What are its advantages?

Long Answer Questions

- 20. Discuss the various factors affecting retail pricing?
- 21. What are pricing strategies adopted by retailer during different stages of product life cycle?
- 22. Discuss discount pricing approach in detail. What are its advantages and disadvantages?
- 23. Is there any best pricing approach applicable in all situations? Discuss it in detail.

CHAPTER

11

Hiring and Managing Human Resources in Retail Organisations



After studying this chapter you should be able to understand the

- ✓ concept of human resources, their significance and peculiar features of employees in retail sector
- ✓ types of structures in retail organisations
- main operative functions of human resource management in retail organisations such as procurement, training, motivation
- √ ways to compensate the retail employees

■●■ Introduction

Human Resources or manpower in any organisation is not simply a head count. Human resources are better defined in terms of skills, knowledge, ability, attitude, personality, health, and physical attributes possessed by the individuals who are working with the organisation. It is their contribution towards achievement of goals that makes them valuable for the organisation.

In all kinds of organisations including retail, human resources consists of two types of employees—line and staff. Both include managers as well as non-managers. Line employees are directly involved in achieving goals of organisation. For example, sales employees, especially frontline line sales people. Staff employees help the line functions or line employees. People working in Human Resources, Maintenance or housekeeping department provide various support services to line employees so that they are able to carry out their functions in an effective manner.

■●■ Significance of Human Resources in a Retail Organisation

Most of the activities in retail store are talent-driven and people are retailer's biggest assets. Ability of any retail organisation to survive, grow and excel in the environment considerably depends upon the quality of human resources, it possesses. Thereby, retailers have to be careful about the quality of human resources it is currently having or intends to acquire as they are of strategic importance to the retailer to achieve the following objectives:

- It is the only resource which appreciates with the passage of time in comparison to other resources. Employees acquire more experience and skills while working with organisation.
- Out of the three main elements of effective retailing—People, Processes and Technology—it is the people which are instrumental in perfecting the processes with the help of technology.
- Most of the attributes of human resources mentioned above are themselves intangible but they
 enable the retailer to integrate physical factors such as location, merchandise inventory, etc. in an
 optimum manner.
- Even for a retailer largely dependent upon technology, human interface is vital while interacting with customers. Customer's quest for details can only be met by competent sales staff.
- With localisation of products and markets; to implement concepts like micro-marketing, there is a greater need of manpower which has better idea about local conditions to meet demands of customers in a more customised manner.
- As personnel cost is usually significant for most of the retail businesses, it can affect the profit
 figures of retailers. In self-service formats like food and grocery stores, it is usually lower in
 comparison to fashion or specialty merchandise where more personnel need to be involved in the
 selling process to satisfy customers at a personal level.

■●■ Major Functions in Retailing Requiring Specialised Human Skills

Various tasks ranging from searching of merchandise to procurement to branding where specific skills relating to retail trade are required can be categorised as under:

- 1. Personal selling, marketing and sales promotion
- 2. Merchandising, supply chain management and inventory management
- 3. Facilities management
- 4. Stores management
- 5. Customer relationship management

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Fundamentals of Retailing

■●■ Overview of Manpower Situation in India

Around 7-8% of workforce is employed in retailing in India in comparison to developed economies such as USA which employs than ten per cent. It is estimated that in India more than 70 million square feet of retail space have been created by 2008. At a growth rate of more than 35%, the retail space is likely to be doubled in three to four years. Assuming that one front-end sales personnel for every 250 square feet of retail space created and an equivalent number of indirect jobs, more than 1-2 million jobs are expected to be created in next few years. This is a clear indication of the magnitude of human resources required to support the growth of retail in India.

Retailing is still at the evolving stage in India. This is, perhaps, the reason why instead of having a large young workforce, India's retail sector is facing acute shortage of human skills at the store as well as at managerial level. Situation at managerial level is somewhat better in comparison to store level as many people from FMCG sector and areas like marketing, branding have been able to learn tricks of retail trade in a quick manner. But the main shortfall is in supply of store level front-end people.

Currently, the attrition rates in retail organisations are very high in India. Frontline staff attrition in retail is around 20-30 per cent which is at par with international level. There is need of people with right set of skills.

Industry is on a growth path and has started experiencing attrition, especially at the lowest level. Options for movement at this level are plenty and compensation is the prime motivator. Though the industry is still at evolving stage and older retail companies have been hit first, there has been some movement in the newer companies too.

■●■ Specific Features of Retail Job

Ambience of modern retail stores can make anyone feel that career in retail should be very exciting. That is true to great extent, but at the same time it is very challenging also and is not everyone's cup of tea. Retailing as a trading activity is quite different from other economic activities such as manufacturing and wholesaling. The few retail-specific features are given as under:

Service Orientation

The retailer's performance at front-end is crucial to its survival. Apart from assortment of merchandise, retailers have to offer various kinds of services to the customers so that they leave the store as satisfied customers. As many of the services at a retail store are to be delivered through human interface between customers and store staff, it needs a mindset, where store personnel can take initiatives to sort out customer's problems.

Long Working Hours

As the stores have to be kept open for very long hours as per convenience of customers, the retailers prefer to have their staff from nearby areas so that stores' functioning is not hampered; it helps in better retention of employees. Moreover, as stores are open on weekends also, balancing of family interests and career objectives can be quite difficult.

Manpower Cost is Significant to Retailer

As the profit margins in retail are not very high due to competition in the market, profitability in the

retail has become largely dependent upon sales volume. Thus, manpower in retail stores needs to be very efficient and productive.

For Future Group, the personnel cost is around 5% of the total sales revenue. Personnel cost as a percentage of sales varies from one product category to another; the personnel cost in case of food and grocery items is at a great variance with that of in case of jewellery. In case of service retailers such as medical and law professionals, personnel cost can be much higher as a proportion of total cost.

Increasing Diversity in Workforce

With greater mobility of population and social changes the workforce has been diversifying in trend with cosmopolitan broad based urban societies. The number of the women in workforce has also increased rapidly during the last few years. The proportion of dual career families is increasing every year.

Proliferation of Retail Management Institutes

To bridge the gap between demand and supply of manpower, many training institutes have come up in India in recent years.

Organisation Structure in Retail Organisations

Organisation structure can also be taken as one of the end Product of Organising Function. The following are the main steps in the process of organising:

1. Identification of the Main Tasks

The main tasks related to store operations, inventory management, supply chain and other areas are identified. Few examples of tasks are setting merchandise prices, inventory storage, presenting merchandise, gift wrapping etc.

2. Grouping of Tasks into Jobs

Different identified task are grouped into jobs. For examples presenting merchandise, actuating sales and gift wrapping can be clubbed into sales personnel's job.

3. Classification of Jobs

Jobs are classified according to the functions such as store operations, merchandising. Though specialisation of jobs is crucial, but now more of the jobs are becoming cross-functional.

4. Establishing Hierarchy of Jobs

The jobs put in the hierarchy. The authority-responsibility relationships among the jobs are established. This is actually making of the organisation chart.

Thus, during the process, various tasks in retail organisation are integrated with the help of organisation chart.

There are two types of organisations according to levels of authority.

Flat Organisation

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It consists of fewer levels of authority responsibility positions and specifically applied to service retailers and where more coordination, higher employee involvement and quick decision making is required to satisfy the customers. Here more subordinates are reporting to the few superiors. The employees are likely to be divided into number of teams to manage various functions and processes. These teams are also termed as Self Managed Teams (SMTs). Organisation into retail banking is a good example.

Tall Organisation

It consists of more levels of authority-responsibility positions and is applied to retailers selling general merchandise or food items. Here jobs are more differentiated and specific. Here, channels of communication are more formal in nature. Departmental stores and hypermarkets can be cited as examples.

Apart from above, the retail organisation structures can be shown in other ways also. Organisation structure is generally depicted with the help of organisation charts. They reflect the different hierarchies, authority- responsibility relationships and flow of information. Organisation Chart of retailers can be set up on the following basis:

Functional Organisation Chart It is based on different functional areas such as store operations, merchandising, sales promotion, personnel management.

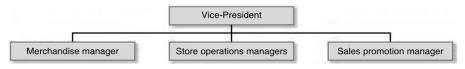


Exhibit 11.1

Product Organisation Chart It is according to product categories such as men's apparel wear, women's apparel wear, kids' apparel wear.



Exhibit 11.2

Geographic Organisation Chart It is applicable in case of organisations spread over wide geographic areas such as national or international retail chains.

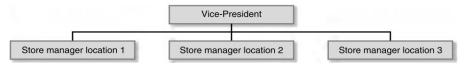


Exhibit 11.3

Combination Organisation Chart It is combination of two or more above mentioned organisation structures. The actual organisation structures can be very different from the theoretical concepts explained above. The example of Future Group is given in Exhibit 11.5.

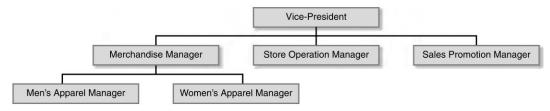
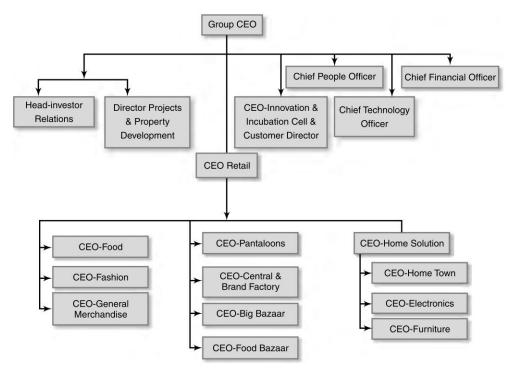


Exhibit 11.4



Reference: Go India November 2008 Issue.

Exhibit 11.5

Types of Employees in a Retail Organisation

Because of its peculiar environment, and issues involved such as actual business hours, service orientation, shortage of manpower to name a few, retail organisations offer a variety of job options. These can vary according to product category, long working hours, seasonal variations, nature of job such as need of personal interaction with customers and so on. These factors make its manpower requirements different from other businesses.

Core Employees They constitute the core team handling core operations of business, are on regular pay rolls of the retailer. They include at least few front-end employees as well. These employees enjoy more job security in comparison to other employees in the organisation.

Contractual Employees They work full time for a specific duration in peak seasons especially during festival season.

Apprentices These are basically trainees who learn on the job, may be absorbed as regular employees after the completion of training. Usually, they are offered some stipend.

Part Timers They usually come for specific hours during the day, mostly in the evening hours or when the traffic in the store is higher in comparison to other parts of the day.

Sub-contracted Employees These employees may come for the full day as the regular employees come but are on payrolls of some other company which has been contracted to handle some specific functions of the retail store. For example, the security, maintenance of premises functions of a retail store are outsourced to some outside agency.

Agency Temporaries Sometimes personnel are hired for specific purpose such as sales promotion for few days at store level or at some trade fair. These people can be hired through some agency.

Self-Employed Agents Sometimes outside people working on commission basis bring customers to retail stores. For example, taxi or rickshaw drivers bring tourists to hotels or handicraft's emporium.

Consultants/Retainers In case of certain businesses such as food retailing, fashion stores, it may be very expensive to employ some expert on regular basis. It may not be desirable as well. The consultants may pay visit to the store on specific days of a month or a week and advise retailers about certain aspects.

Here, it is important to mention that there can be conflicts among different categories of employees concerning job security, financial benefits, working conditions to name a few.

Main Operative Functions of Human Resource Management (HRM) in Retail Organisations

HRM process is akin to the process of general management. The main steps in the process of HRM are as under:

Manpower Planning As the retail is manpower intensive and it is very dynamic in nature, so management planning becomes crucial to the success of the retailer, especially when the retailer has expansion plans.

The manpower plans are made to keeping in view forecasted requirements, existing inventory and supply position.

Forecasting Forecast manpower requirements depending upon nature of merchandise categories, competitive environment, seasonal variations, etc. are significant for the retailer's success. The retailer can make use of various techniques such as work study, trend analysis and his own judgement based on past experience to forcast manpower requirements.

Manpower Supply Position in Retail Market The supply position like how many people will be churned out by the training institutes, retrained and redeployed (may be for people from other industries), availability of expatriates, etc. have to be taken into account.

Existing Inventory of Skills Present inventory of employees in terms of skills available currently with the retailer are assessed. The productivity (like sales per employee), attrition rate, turnover rates, absenteeism of retail employees are also taken into account to make skills inventory.

Job Analysis It consists of two dimensions: job description and job specification. Job description is the list of duties and responsibilities, as well as tasks supposed to be carried out in a particular job. The job specification is about human qualities like qualification, experience required to carry out the tasks mentioned under job description.

These tasks on the basis of their nature, commonality and interrelationship can be bundled together into specific jobs. Some of the jobs are front-end and some are back-end. One example each from front-end and back-end operations has been taken:

Responsibilities/Tasks	Job Title	Nature of Job
Search of merchandise, display of merchandise, providing information to customers, packaging of sold goods/gift wrapping	Sales Personnel	Front-end
Receiving and checking of merchandise, storage, Issuing, etc.	Store Manager	Back-end

Exhibit 11.6

Procurement of Employees When the workers are selected by matching job requirements with assessment and evaluation of abilities of applicants, it is termed as scientific vocational selection. This is important to avoid problems at a later stage. Job analysis comes handy in that.

The procurement of the right employees with right skillset is important for the retailer to fit them into the job requirements and company culture as well as the retail objectives. It consists of two steps—Recruitment and Selection.

Recruitment It means inviting people to apply for job with the motive to create a pool of candidates. The various sources are mentioned as under:

Advertisements Taking clue from job analysis, the advertisement can be put in newspapers, trade magazines like Images Retail, internet, etc.

Retail Management Institutes They are important source for source of fresh manpower.

Employee Referrals The existing employees can be asked to refer their friends and relatives for the job. The employees may be paid for their efforts, if their referrals get selected.

Consultants The retail management consultants through their networking and links in the industry help in the recruitment process.

Using Storefronts Sometimes vacancies for positions such as salesman, assistants, helpers are posted at the storefront in an attractive manner to have more response for the vacant posts.

Gulf is regarded as shopper's paradise. Thanks to payloads of Indians who travel there regularly. For Indians, it is also the training hub for shop floor services. So, when the retail sector is hit with the current crisis of trained manpower shortage, all the retailers turned to the Gulf.

And surprisingly, it is mostly Filipinos that the Indian retailers are interested in. High-end retailers are known to bring in trained Filipinos employees from countries in the Gulf to fill up vital spaces in large malls in India. Arvind Brands is targeting visual merchandisers from Middle East for its premium and luxury brands. The special aptitude of Filipinos in visual merchandising has prompted the fashion leader is the main reason for this scouting.

Another premium retail brand in watches, pens, jewellery and leather goods Vogue started by promoters of Akbarally's, Wockhardt and Gili is looking for Filipinos as floor managers, for the positions of managers who will typically lead a counter sales team of 10-12 people. Issues like compensation and other benefits are being negotiated.

Reference: Economic Times, dated May 14, 2008

Selection Once the list of prospective candidates is before the retailer, the process of selection can be started. The selection is important as the performance of organisation depends upon the performance of its employees. Thus, wrong selection can be costly and sometimes can be difficult to be reversed because of legal hassles involved. It consists of following steps:

Preliminary Interview and Application Blank Generally, junior executives of human resource department conduct preliminary interviews of the candidates for the initial screening of the candidates. The purpose is to verify information supplied in bio-data, checking eligibility, seriousness of candidates, etc. After this, shortlisted candidates are supplied with application blank to get information about candidates in a uniform manner. It will consist of questions as per requirements of the retailer, such as relating to the job, working conditions, previous experience. It also becomes base for interview and further selection process.

Testing Various types of psychological tests such as aptitude test, trade test, personality tests and interest tests can be conducted which provide insight about potential employees. The information generated through tests is matched with job requirements.

Final Interview Generally, conducted by people from concerned department and top management. Upon final selection, the candidate is issued a letter of offer of employment, mentioning terms and conditions of employment. Once it is accepted by candidate, he or she is issued an appointment letter.

Given the shortage in numbers and available competency, proactive training is a key imperative for Indian retailers. With poor public training infrastructure in the retail industry, most retailers in India depend on in-house training. All the survey respondents have a significant portion of on-the-job training in their existing stores for new recruits. In a few instances, retailers have ties with management/training institutes and some leverage their international partners' infrastructure. Some retailers have taken the step of setting up their own retail schools: a case in point is the RPG Institute of Retail Management. ITC is planning a retail training academy in partnership with NIS Sparta.

Some retailers are tying up with management institutes to develop specific training programs for their employees. Pantaloon has tied up with the K. J. Somaiah Institute of Management to offer specialised courses in retail management. Best in class global retailers have proactive training strategies. Bharti WalMart has opening retail institutes in Amritsar and Jalandhar.

Costco has its Costco University and McDonald's has its Hamburger University. Proactive training strategies would become a competitive differentiator for retailers, given the resource and competency shortages in India.

Exhibit 11.8

Orientation of Retail Employees Once a selected candidate joins the organisation, orientation programme is conducted to make the candidate an effective member of the team. The candidate is familiarised with its history, products, facilities, policies, procedures, rules and regulations. The candidate is introduced to different people. The orientation is important in developing positive image about organisation and initial motivation.

Induction Programmes Induction or orientation is a socialisation process through which the new employees of the organisation get comprehensive idea about various functions and processes, people, policies and procedure, products and history of the organisation. The aim is to facilitate the candidate adjust in the new environment and to reflect positive image of the organisation. It is a structured programme, generally of short duration and handled by HRD.

Training and Development of Retail Personnel Training is a short duration structured programme imparted with the motive to enhance job-specific and practical skills of the employees, mostly at the

store level. It is a structured programme in terms of specific objectives, duration, contents of training, trainer etc.

Retail as a business entails many operational activities, many of them at front-end such as visual displays, searching for merchandise, directly dealing with the customers and so on. Thereby, training of employees becomes important for retailers. Training of store employees are inter alia intended for the following benefits:

- Increasing productivity of retail employees
- Handling customer queries in a satisfactory manner
- Implementation of customer relationship management programmes
- Preventing merchandise shoplifting
- Reducing wastages

Development aims at imparting decision making skills to the employees, generally at managerial level. It is a continuous process and is not as structured as training programme is. More is the complexity of retail environment, higher is the need of development programme.

Now, store personnel need to take many decisions while dealing with customers. So, better analytical, creative and communication skills are required. Moreover, team building skills are needed to make employees to work as members of a team to achieve objectives.

Retail employees need both training and development. It is only a question of proportion—employees at store level need more dose of training and at higher levels need more participation of developmental programmes. But, both training and development supplement one another.

Types of Training Training is mainly of two types—On-the-Job and Off-the-Job. Many institutes in India are offering training and development programmes in retail sector. Broadly, training is of two types:

On-the-Job Training Retailing is not an easy game which can be learnt in classrooms and boardrooms. It is more of an art and less of science. There is no substitute but to learn the tricks of the trade at the front-end in an actual environment. On-the-Job Training is usually learning while earning. It helps retailers to build better sales people and a company culture which helps in better retention rates. It is more cost effective also as employees perform their duties while on training.

- In-house Training Programs: Many organised retail companies have started building up their human resources through internal training measures. These programmes have become popular during recent times in India which is facing manpower crunch as trained people can be put on job soon after they join. The short term courses are generally conducted for the employees joining at the store level.
- **Apprentice Training:** In cases long duration is required to gain proficiency, apprenticeship can help. The trainees are paid some stipend during the training and may be absorbed at the end of the training period.
- Internship Training: In this type of training, both retail institute and retail organisation participate.

Off-the-Job Training On-the-Job training is further supplemented by off the job training. It is basically about learning skills of the job away from the place of actual job. Rapid growth of retail sector in India has not given any chance to the retailers but to train or get people trained through short term courses.

• Courses at Management Institutes: Sometimes the training of retail personnel is outsourced to some other organisation or management institutes. Students are advised to refer exhibit.

- **Demonstration:** It shows how to use some technology or selling a product. There should be active participation by the trainees. It can be animated also with help of video but may be without any active participation by trainees.
- **Sensitivity Training:** There is extensive interaction among participants. It aims at developing better understanding among the participants.
- **Role Playing:** A real work life situation is created and trainees are assigned different roles. They play those roles which help in developing insight about others and promote team work.
- Refresher Courses: It is based on the assumption that training is not one time activity but has to be a regular exercise to maintain the performance levels. With change in technology and addition of new product categories or to improve some functional area, the refresher training becomes important. Marks and Spencer, a leading retailer of Britain, instituted a training programme to improve its customer service.
- Participation at Summits, Seminars and Conferences: Participation in these activities is important to keep oneself updated about latest developments in technology, consumer insights, etc.
- **Tie-up with professional Organisations:** Tie up with the professional organisations is also important to get abreast with new technologies, new perspectives on existing practices.

The training model in Reliance Retail is based on 3 P's-

Product: in terms of benefits to the customers

Processes: involved in store operations

People: customers, colleagues and management

Reliance Retail believes in "Grahak devo bhava" and intends to instil its essence in the store personnel to generate utmost satisfaction of customers.

For shop like Reliance Hypermarket, the culture education is imparted with retail expertise.

Exhibit 11.9

Main Requisites for the Success of Training Programme Important factors to make the training programmes more successful are given as under:

- Goal orientation, learning ability of participants should be taken into account
- Motivation and active participation of the trainees is essential
- It should be conducted in the real environment to the extent possible
- Regular evaluation, performance standards should be set
- Different methods of training should be combined so as make it more comprehensive
- Training should be imparted as per individual needs and with the help competencies identified in potential development centres and appraisals.
- Training needs varies as per employee level. For example, managerial staff has more of soft skills
 and technical skills to learnt. For store personnel, product understanding, and retail selling are
 crucial. Madura Garments' lifestyle brands conduct programmes on customer orientation, product
 knowledge and visual merchandising.
- India is a multi-cultural society and no pan India model is possible for training purpose without customisation.

Training Programme at Shoppers' Stop:

Company is keen to enhance training for its 1,800-odd employees. Vijay Kashyap, vice-president of HR at Shoppers' Stop said, "We have a kangaroo programme in our company which is a development programme for workers and so far has been a very effective way to groom talent."

As a first step under this programme which is called "Baby Kangaroos", company chooses about 400 people from the front-end operations lets makes them undergo a six-month development programme. After assessment, about 30 employees qualify to become supervisors.

The process is repeated under different conditions for supervisors to qualify as departmental managers, which is called the Kangaroo programme. In an even more advanced level called the Senior Kangaroo, the departmental managers qualify to become unit heads.

"We call this kangaroo because like the animal which carries a pouch, the employees have to undergo training in the hands of seniors," explained Mr Kashyap.

Reference: The Financial Express, June 7, 2004.

Exhibit 11.10

Motivation of Retail Employees In the chapter on consumer behaviour, we discussed about different sets of needs which motivates a prospective buyer to take purchase decision. Motivation aims to channelise people's efforts in the right direction. Sometimes, the pool of manpower is available, but the problem is in getting productivity from them.

Maslow Need Hierarchy Theory is general in nature and can be applied to understand the motivational needs of the employees also. The different needs described in theory are physiological, security, safety, esteem and self-actualisation needs.

These can be broadly categorised as:

Basic Needs The first two sets of needs and to some extent social needs are termed as basic needs and more applicable in case of floor level employees.

Secondary Needs Social needs, esteem needs and self-realisation needs become more important in case of higher level employees.

Herzberg Two Factor Theory goes for categorisation of motivational factors more or less on the same lines. The above two set of needs take the shape of hygiene factors and motivational factors in this theory. The same is the case with McGregor's Theory X and Theory Y. Theory X focuses more on the basic needs and Theory Y on the secondary needs.

Linked with Basic needs and Secondary needs, Motivational factors can be divided into **financial and non-financial** factors also. The financial or cash benefits are primarily important to meet basic needs, at least for non-managerial positions.

Financial Factors Money is a big inducement for employees to perform as it is more tangible. It is important to achieve many personal, social and career objectives. Generally, it is about remuneration offered to people in the organisation. It has been discussed later in the chapter under the head of compensation.

Profit Sharing and Employee Stock Option Programmes Sam Walton was the first CEO in USA to provide profit sharing to all his employees as business partners. Many retail organisations offer employee stock option programme to their employees.

Non Financial Motivators The non-financial motivators may become more important for both higher level and store level. These are:

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 - Cross Training: It is basically training for variety of jobs. Wal-Mart makes extensive use of this technique. It is also termed as job rotation wherein employees get opportunities to work in different functional areas apart from main job. It helps in broadening employee perspective. They get better idea of functioning and problems of other areas and it facilitates better coordination. It breaks monotony also. For example, a salesperson may be working with different functional areas such as visual merchandising, outside sales promotion at different points of time.
 - **Job Enlargement:** The retail personnel are given additional responsibilities of more or less the same level. For example, sales personnel being given additional assignment of visual displays.
 - **Job Enrichment:** It happens when higher level and more challenging responsibilities are assigned to store personnel. For example, a sales personnel is given additional responsibility to promote the sales of international brand or higher-end products.
 - **Job Autonomy:** The participation of employees in decision making processes and independence to manage one's own affairs to the extent possible can be a big motivator for sales people. The culture with space for innovation, experimentation and permission to make mistakes results in better learning of employees and is an important motivational factor. The people should be motivated to think like entrepreneurs and everyone is expected to do whatever it takes to serve customers.
 - **Promotions and Transfers:** Filling managerial positions in the organisation by promoting people from within the organisation is an effective motivational technique. Hypercity have promoted many people from within the organisation rather than people from outside to fill many positions. For example, a cash supervisor has risen to the level of GM in a span of just two and half years. Even transfers to desired stores which are near to place of living, especially overseas assignments can be motivating for an employee.
 - **Specialised Training**: The market value of an employee increases after undergoing training programme which is a motivational factor. Suppose, an employee is given an opportunity to participate a training programme conducted by Retailer's Association of India or an Indian Institute of Management, he feels motivated. The opportunity to attend national and international conferences such as Retail Conclave while working at retail store is also effective as a motivator.
 - Public recognition such as awards to top performers at meetings, special functions and offer of
 holiday trips to top national and international destinations not only motivating to personnel getting
 award but sets an example before other employees to perform better.
 - Management by Walking Around (MBWA): It is an effective technique of motivation of employees on routine basis, especially in store and production jobs. The top executives of the companies such as Wal-Mart move around the store and interact with employees of the organisation in an informal manner. Employees develop feeling that management people are like ones among them. This feeling is really motivating.

Compensation in Retail Oganisations Compensation is the payment that employees receive in exchange of their time and efforts. It is generally about remuneration structure. The various options before retailers are as follows:

- Salary Only
- Salary plus Commission
- Salary plus Bonus (plus Commission)
- Commission only

Motivational Culture in Future Group

For Future Group, the top Indian retailing organisation, Kishore Biyani, Group CEO, is spearhead of motivational culture in the organisation. He possesses great observational skills and is adored as Retail Genius, spot-on when it comes to timings. He is determined to build a business that is competitive, where fast decision making is the basic trait. The company always wanted to have first mover advantage and for that empowering employees is very important. Kishore Biyani just not only believes in delegating the authority, but complete handing over of authority to business unit heads and himself involves in nurturing new business.

The company looks for lots of Indianness among its employees so that their decision making is based on Indian instincts.

Kishore Biyani communicates with employees, house entrepreneurs on regular basis, preferably through telephones or SMS, circulates among staff members, this helps in creating a culture of trust in organisation.

The company encourages competition between stores with store data openly shared between managers. The sales reports provide full details and enables store managers to see what is working elsewhere, and what not.

The essence of Future Group's culture is emphasis on 'Entrepreneurship' or rather 'Intrapreneurship' as the company relies heavily on internal sources for the generation of ideas for the growth and creation of new business opportunities. Though during initial stages, Group CEO was the sole entrepreneurship but now there are more than 700 plus store managers being nurtured in that role. Like entrepreneurs, the store managers can take initiatives and are allowed to commit mistakes in the process and learn from errors. The managers will come forward with new ideas which can be researched and explored further and then adopted. About 15 big project ideas are given clearance and full support annually. Developing brands are also part of the innovation culture being nurtured in the Future Group.

Reference: Go India, November 2008 Issue.

Exhibit 11.11

Salary Only It is more beneficial in the situations where

- Sales cannot be attributed to efforts of a single person
- Sales of merchandise is dependent of various services also
- Setting individual targets is not possible
- Promotional efforts are more important than actual sales

Keeping above in view, this mode of compensation is adopted by food and grocery stores.

Salary Only has the following positive points:

- As it has entails regular income, it instils sense of security in employees
- It commands higher loyalty and better control
- There is greater flexibility in transferring employees. For instance, from sales to other functional area or from higher revenue generating product category to one with lesser income
- It is simpler to administer.

Generally, salary has the following components:

- Basic Salary
- Dearness Allowance: It is certain percentage of basic salary
- Housing Rent Allowance: It is also certain percentage of basic salary

Depending upon the Government regulations and policy of the organisations, there can be certain social security benefits such as provident fund, gratuity, pension, etc.

In addition, there can be non-cash benefits (fringe benefits), but which can be attached some monetary value such as free or subsidised housing, education of children, transportation, etc.

Commission: Commission can be of three types:

• Flat: The percentage of commission is constant at different volumes of sales

- **Progressive:** The commission increases with the higher sales slabs, e.g. 2% for sales upto two lacs, 3% for sales between two lacs to three lacs.
- Regressive: The percentage commission comes down with higher amounts of sales

Retailer may prefer paying Commission to its sales personnel when

- The product to be sold in a highly competitive market
- Sales volume is low
- Product to be sold throughout the year or in the off peak

Commission has the following positive points

- Acts as a motivator to perform better
- Sales personnel automatically gets differentiated on the basis of performance

But it has got certain disadvantages

- It develops feeling of insecurity
- It can result encirclement of customers by the salespeople
- It may result in higher employee turnover
- It may result in unethical pushiness of product, may jeopardise long term relationship
- It may result in loss of management control over its employees.

Bonus: It is an additional compensation paid to employees at the end of the year, based on the overall performance of the employees. It can be in the form of cash or in the form of shares.

In the nutshell, we can say that retail as a business is human skill oriented. Keeping in view that the retail environment is very challenging and competitive, there has to be continuous upgradation of the human skills, motivation of the human resources and integration of human efforts with the processes so that offering value becomes part of the culture of retail organisation.

[Summary]

- ➤ Human Resources are the vital input to make the retail ventures successful. They integrate all other resources, appreciate in value with acquisition of new skills and visible face of retail organisation for the interaction with the customers.
- Service orientation, long working hours, high manpower cost, diversity of work force, proliferation of training institutes are the key features in context of retail business.
- Flat organisations have lesser levels in comparison to the tall organisations. Organisations structures can be based on the criteria of store operations, products, geography or mix of the all these.
- A big retail organisation usually has mix of employees such as core, contractual, apprentices, subcontracted or agency temporaries. It can have some retailers or consultants also.
- ➤ Recruitment, selection, training and development, motivation and compensation are the main operative functions of Human Resource Management. They have been discussed in context of retail organisations. Advertisements (mostly in print media, management institutes, employment agencies, employee referrals, consultant and even using storefronts are used to create a pool of candidates for retail organisations.
- > For selection into retail organisations, the candidate has to go through interviews, different tests such as trade test, aptitude test and personality test. Reference checking is also important in case of retail organisation. After a candidate becomes part of retail organisation, there are induction and placement programmes.

- Most of the training is on the job for the frontline people. In-house training programmes and apprenticeship are the main on the job training programmes.
 - Crash courses, short term courses or refresher at retail management institutes, role playing, sensitivity training, product sales demonstrations are the main off the job training techniques.
- For devising any Motivational Programme for the retail employees, the understanding about human needs is really important. Cross training, job enrichment, job enlargement, job autonomy, management by walking round (MBWA) are adopted apart from offering financial benefits.
- For compensating the retail employees, the Salary, Commission and bonuses etc can be used by the retailer in varying proportions. The compensation package can be in the form of salary only, salary plus commission, salary plus bonus and so on. Salary generally consists of basic salary plus HRA plus DA. Commission can be Flat, Progressive and Regressive.

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-[Revision Exercises]

■ ■ Very Short Answer Questions

- 1. What are human resources?
- 2. What is on-the-job training?
- 3. What is apprenticeship?
- 4. What is induction programme for the newly selected candidates?
- 5. Why is India facing shortage of manpower in the retail sector?
- 6. Discuss management by walking around (MBWA).

Short Answer Questions

- 7. What is the importance of human resources in a retail organisation?
- 8. What are the types of commission offered to sales people in a retail organisation?
- 9. What are the different categories of employees working at the retail organisation?
- 10. What can be the sources for recruitment for a retailer? Discuss in brief the process of selection?
- 11. What is the manpower scenario in retail sector in India?

- 12. What are the characteristic features of retail organisation?
- 13. Discuss different types of organisation structures?
- 14. Discuss manpower planning in the context of retail?
- 15. Enlist the key areas in retail organisation where specific skills are required.
- 16. Discuss the main components of compensation in case of retail employees?

Long Answer Questions

- 17. What are the main requisites for the success of training programme? What are the main training techniques?
- 18. What is the difference between basic needs and secondary needs in the context of motivating employees? How can the retailer develop a motivational culture in its organisation?

СНАРТЕЯ

12

Store Layout, Design and Visual Merchandising



After studying this chapter you should be able to understand

- ✓ understand the concept of store image, store atmospherics
- ✓ understand the concept of store layout and design; their significance to the retailer
- ✓ elucidate the concept of store layout planning as a process
- ✓ elucidate visual merchandising, store atmospherics and various related concepts

Introduction

"Retail Today has strong element of theatre. No longer is the store just selling goods, there is always a theme, a story that the retailers want a consumer to draw into" says Sonia Manchanda, Founder and Director, Idiom Design and Consulting Ltd. Store design, layout and visual merchandising are the most visible aspects of modern retail. As per India Retail Report, around 10,000 existing outlets set to undergo complete facelift and millions of square feet of premium retail space have been created in India in last few years. Now more and more retailers are seeking professional help from designers, architects and visual merchandisers which was not the case earlier. International store designers are setting up their shops across India.

In country like India where land is in short supply and real estate rentals and valuations are very high, store architecture and layout is crucial. Mall developers and retailers have no option but to move vertically upwards to create more space. In that scenario, layout and designing becomes even more important. As the number of footfalls usually goes down on the upper floors, the layout and designing should be done in such a manner that customers circulate the whole store (or mall as the case may be). For example, in a mall, generally anchor stores, theatre and food courts/restaurants attract more traffic. So, these should be located, preferably, on upper floors and at opposite/different ends of the store so that there is equitable distribution of traffic. In the same way, the retailers should identify the product categories for different floors so that customers visits the whole store.

■●■ Store Layout and Design

Store layout is the physical location of various departments that facilitate shoppers in the retail store. It is a plan to make optimum use of space. It takes into account customer traffic patterns, merchandise displays and permanent structures like aisles and fixtures. Store layout plan depends upon the type of merchandising objectives of the retailer. It is important for the retailers to understand the consumer behaviour and set up a more shopper friendly layout. An effective layout guides customers through the store, displaying various types of merchandise items and is an effective marketing tool.

Now shoppers see stores as little communities where they would like to spend some time with their families and friends. Their motive is not just to make purchases but also to experience so many things. Store layout and design is both an art and science. It is an art in the sense that it connects well with site and location, access so that it fits better into the overall retail environment. It also makes use of science to connect the different parts of the store and a customer can conveniently visit the different parts of the store. In nut shell, it needs artistic skills as well as scientific principles to convert external traffic into internal traffic.

Store design is crucial to create inspiration among prospective buyers to enter the store. Once a customer enters the retail store, store layout and design help prospective buyers to navigate through different sections of the store. In general, store design has got two dimensions—internal design and external design.

It is important to mention here the important elements linked with the store design:

Location

It is important for external design. Access, visibility, etc. are important elements.

Building Architecture

Frontage, entrance, etc. are important elements. Design elements should take care of safety and health, both mental and physical.

Store Theme

It is linked with target clientele and merchandise presentation.

Store Layout is also closely linked with store design to achieve the objectives.

Store Design: Few important factors to make store design more effective are given as under:

- 1. Symmetry should be taken into account.
- 2. Design must be in a position to emphasise on desired features with the help of size, repetition or contrast.
- 3. Proportion and scale should also be taken into account.
- 4. Rhythm and harmony are crucial.
- 5. Continuity, progression and alternation are also important factors.

Exhibit 12.1

Need and Objectives of Store Design and Layout

The store layout is central to the efforts for developing the image and establishing efficient retail operations. The retailer intends to accomplish following objectives with the help of planned store layout:

1. *Implement the Desired Image* Store Image is the overall perception that the customer has of the store's environment. Store layout should provide space and an arrangement of the facilities according to the desired image objectives and it has to be supported by the merchandising. The store layout, design and visual merchandising reinforce image, product and services of retailer. In case of chain stores, some modifications may be required in standard layout according to local requirements and customer needs.

As India is a diverse market, the retailers like Trent, Shopper's Stop, Future Group and Reliance have adopted their store layout to local needs and preferences. Future Group has designed stores in such a manner that it gives look of a typical Indian marketplace (bazaar) where shoppers are jostling with each other.

Wal-Mart and Tesco have done changes in their standard stores layout and design as per local

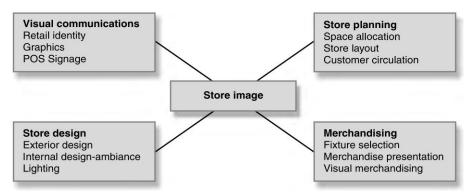


Exhibit 12.2

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requirements. Wal-Mart has adopted 'Store of the Community' concept in a big way as a strategic tool by designing stores according to local conditions.

2. Enhancing the Efficiency of Store Operations The store layout should be planned so that front-end sales activities are integrated with the back-end operations. It also helps in better inventory management and utilisation of human resources.

This is specifically applicable in case of food and grocery stores where percentage margins are thin and profitability depends upon the efficiency of sales operations and turnover of the inventory. The planned store layout becomes more important for the small retailers as they have limited space and optimum use of space is a necessity, especially in a country like India.

- **3. Maximisation of Sales Revenue** The store design and layout and visual merchandising desire exposure of all merchandise items. The customer first purchases the staple items, then convenience items and at last impulse items. Impulse items carry maximum margins. A customer friendly layout propels shoppers to spend more time in the store, and hence, it increases the chances of 'impulse shopping'. The store layout helps in making the shopping experience complete. The store layout is also important for word of mouth advertisement and consequent sales.
- **4. Prevention of Merchandise Shrinkage** Prevention of losses due to shoplifting is a major concern for all the retailers. The total loss due to merchandise shrinkage is close to \$100 billion world over. In India, the figure of loss due to shrinkage is around Rs 10,000 crores. Thus, we can see how shrinkage eats into profitability of the retailers. It should be better addressed at the initial stages of store design and layout.
- **5. Energy Efficiency** Now issues like global warming and increasing energy costs are compelling retailers to adopt energy efficient measures. So store layout and design should allow optimum use of natural light, alternative sources of energy like solar energy, recyclable resources and renewable resources. Now, even grading of the stores is done the basis of energy efficiency measures adopted. The Wal-Mart has already adopted the concept.

Keeping in view all these needs and objectives, it is necessary that considerable time is required to be spent in planning the layout so as to minimize problems at a later stage and this decision is not easily reversible.

Space and Space Mix

The space is the most precious resource for the retailer. The layout and decisions are essentially about utilisation of space. So, it is better to have fair idea about space. Through layout, the store space is generally divided into following categories:

1. Selling Space

- Floor space, fixtures, walls, end caps for product displays and demonstrations
- Space for lounges, food courts
- Customer checkouts

2. Non Selling Space

- Aisles- for the movement of customers
- Inventory of merchandise
- Service areas, parking facilities
- Back-room, office and maintenance services
- Personnel space to meet routine needs of employees like lockers, rest rooms

The objective of the space mix is to strike a balance between all the categories for the purpose of space allocation. Suppose, in a store 60% of total space is for selling 20% for customer flow, 10% for stocking and 10% for maintenance and employees.

Building bye-laws may also play some role in space mix. E.g. case of some city, as per municipal building bye-laws, the area to be reserved for car parking is one car per 100 sq mtr of carpet area. So, if any big format is to be developed in 5,000 sq mtr carpet area, a provision to park 50 cars will have to be made.

The Store Layouts may be Categorised into Three Basic Types

- 1. Grid Layout
- 2. Loop or Racetrack Layout
- 3. Free-flow Layout

Grid Layout It is generally adopted by food and grocery retail formats such as supermarkets and pharmaceutical retailers. It is a linear system of shelving where fixtures are arranged to form vertical and horizontal aisles throughout the store. The fixtures are placed mostly at right the angles.

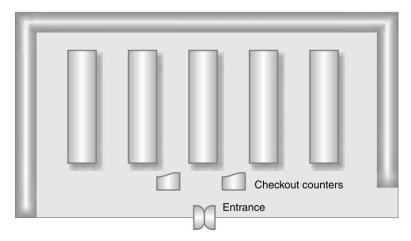


Exhibit 12.3

Advantages

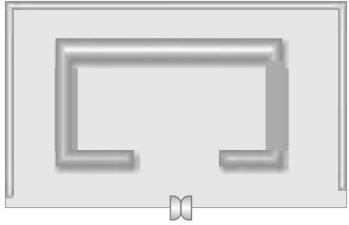
- This layout is quite methodical, efficient and convenient.
- Visibility of merchandise is better.
- Specifically useful in self-service formats where customers can directly go to merchandise.
- Design and cost efficient.
- Customer movements can be tracked with precision and traffic control can be more effective.
- It leads to easy maintenance of selling areas.

Disadvantage

- The linear repetitive pattern is not very aesthetic and thus, creates formal and monotonous environment. So, shoppers may not like to spend much time. The purpose of impulse selling may not be served.
- The primary aisles get more exposure in comparison to secondary ones.

Loop or Racetrack Layout It allows shoppers to explore great deal of merchandise as they follow a perimeter traffic aisle with departments on both the sides of a loop running around the store. This layout

divides the selling floor into departments or 'shops' within the store. It is generally used in a discount or a departmental store.



Racetrack/Loop layout

Exhibit 12.4

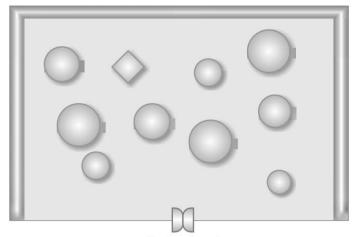
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Advantages

- Loop effect facilitates impulse buying. The latest or fashion merchandise is prominently displayed on these main aisles.
- Overhead directional signs and departmental graphics provide visual cues to the location of other departments, helping shoppers while they shop.

Disadvantage This layout is costlier to design, construct and maintain.

Free-flow Layout Layout is not very structured and thus, it is quite flexible. This type of layout aims to create an informal, friendly and ambient environment. It focuses on interior design to differentiate merchandise items, product categories and departments.



Freeflow layout

Advantages

- It motivates shoppers to spend more time in the store and explore the merchandise.
- It generates sales and profits through impulse shopping.
- This is generally used in specialty stores, where selling approach is consultative and personal.

Disadvantages

- The main disadvantage lies in the inefficient use of space resource.
- Traffic flow is also not smooth and shopping pattern of customers may not be very predictable.
- The manpower productivity is not optimum.
- As vision is blocked, the chances of shoplifting are higher.

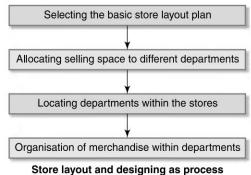
Designers can use various combinations of the three layouts to increase flexibility or improve traffic flow. This practice is prevalent in multilevel stores and large formats offering large assortments. A combination of formats may improve productivity, aesthetics and visual effectiveness.

Store Layout Planning as a Process

The knowledge about the consumer habits is important. Planning of store layout typically consists of four distinct steps:

1. Selecting a Store Layout Type Once selling space to sales support space ratio or space mix is decided, store designers can begin the planning process. The store design and layout decisions are linked to it. Each type of layout has its unique features. They create different traffic flow patterns.

Moreover, retailers try to find innovative and customised layout solutions with the help of technology and research. Store grading can also be done for the purpose of store layouts and designing on the basis of size, location and site, prospective customers and other physical attributes. A separate planogram can be prepared for each grade of store for the purpose of space management.



Store layout and designing as proce

Exhibit 12.6

The type of merchandise plays an important role in selection of store layout. In case of food and grocery items, the ease of locating the merchandise is more important as shopping is mostly planned and shopper does not want to spend much time in shopping. In case of specialty or lifestyle products, the layout requirements are different as emphasis is on display of products which are mostly fashion-oriented.

Retail Cartography

There are various methods to map traffic patterns. Some retailers may take help of conventional sampling techniques. They put observers among the customers to note down customer movements and purchase behaviour. On the basis of analysis of sample data, the traffic patterns can be developed.

Some retailers may use high tech strategically placed video cameras to record customers' actions, develop headcounts and map traffic routes accordingly. The motive is to identify **hot and cold spots**-density of traffic. Suppose a particular number of prospective customers enter the store on a particular day, the video intelligence may provide details about how many moved to endcap, primary aisles, storefront window display and so on. How many percentage conversions took place at different locations in the store in.

Once the current traffic pattern has been identified, retailers can try modifying the layout of their store to increase sales.

Exhibit 12.7

2. Allocating Selling Space For any retailer, decisions about space allocation are basically about size and location of space for various merchandise categories. The amount of space allocation depends upon factors like convenience of shoppers required, estimated sales, gross profit margins per square foot or linear foot. Direct product profitability is also used for making space allocation decisions. Retailers can develop and use mathematical models for numerical calculation for space allocation purpose.

Display and demonstrations requirements of the product category also play an important consideration. For example, a toy retailer has to provide ample space for toy testing. An electronic and consumer durable retailer has to specify a large area for a product like home theatre.

Suppose the decision is to be taken about space allocation to men's wear in an apparel store. Then, the space requirement of men's apparel is to be ascertained. The research about their preferences and sizes etc. gives an idea about merchandise requirements. Then virtual mapping and planograms give some idea about their space requirements. In many cases, selling space is allocated according to types of merchandise-staple, convenience and impulse.

Types of Merchandise	Percentage of Total Merchandise
Staple items	50-60
Convenience items	25-30
Impulse items	15-20

Exhibit 12.8

3. Locating Departments within the Stores Once the space requirement of a product category or department is determined, the next decision is about location. It has got two dimensions. First, it is the decision about floor. The ground floors is being given the maximum weightage in comparison to upper floors. The ground level has to make provision for inventory and other services, so less selling space is available on the ground floor.

Once the floor is decided, then the location options available within a particular level of store becomes important. The merchandise located in the primary traffic aisles at the intersection of two or more primary aisles, near the main entrance may get better response. Floor space that is located on the right of an entrance is the most attractive one. The entrances are supplemented by window displays.

It depends upon the nature of merchandise also. For example, the apparel products can be given allotted place near window displays. Product categories like home improvement, electrical appliances, furniture, requiring more space, are often displayed in the back of the store.

4. Organising Merchandise and Fixtures within the Departments The merchandise is generally organised within the departments on the basis of brand, category, size, colours, style and price. New products, fashion-oriented products or heavily promoted products are often differentiated in the departments.

Retailers allocate the best selling area of department to their most profitable or best selling merchandise. The most favorable locations for merchandise are feature floor displays, aisle ends, eye-level positions on gondolas and wall fixtures, and checkout and point of sales areas.

Certain Guidelines for Designing and Layout of Stores

In addition to certain aspects discussed above, the following points should be taken into account for designing and planning layout of stores:

- High profit margin merchandise can be allotted prime locations in the store. The end aisle locations can be used because they have a high exposure.
- The high frequency staple merchandise can be given less valuable, but convenient space as shoppers will always walk up to them, once they are in the store. Generally, staple merchandise carry thin margins, but build up traffic and generate revenue.
- The traffic builder merchandise items can be allotted periphery of the store so that shoppers disperse throughout the store.
- The complementary merchandise items should be placed close to each other to the extent possible.
 This can increase chances of cross-merchandising besides making shopping convenient for the customers.
- Some area can be designated for seasonal items so that merchandise switchover is more efficient with the change of season.
- The small departments should get better location so as to increase visibility.
- There should be no crossover aisles that allow shoppers to move between aisles. It may hinder exploration of merchandise

Visual Merchandising

Over a period of time, the consumption has not just remained an economic activity but has acquired socio-cultural dimension as well. In this globalised world consumerism, materialism, self expression, openness to new ideas and cultures, glitz and glamour, sensory indulgence has become the way of life. These of changes have an impact on the consumer buying behavior also. Retailers would like that store designs, layouts and merchandising policies reflect these changes so as to have better connectivity with customers. The success of retailing business is also linked with these factors.

Visual merchandising (VM) is a science as well as an art. It is a science as it tends to produce cause and effect relationship between stimuli in the form of display of merchandise and desired consumer response, mostly in the form of increased sales.

VM is the art of presentation which puts the merchandise in focus and visual communication to the shopper. The effective VM produces mental images that urge potential consumers to closely examine the merchandise and make purchase decision. Through VM, the retailer tends to differentiate products

or brands from each other, it adds character to them. And at the same time, it tends to integrate them into store image and retail environment. A dynamic VM also ensures that no two visits to the store are same.

Though windows display is an important component of visual merchandising, but it is not just about window displays. It is an admixture of store exterior and layout, design, fixturing, merchandise display, mannequins, light effects, music, etc. In addition to above tangibles, VM also involves analysis of sales per unit of space, specification of store and department, traffic control and display research.

Essentials of Effective Visual Merchandising

Balance: Asymmetrical displays are more effective than the symmetrical ones.

Size of objects: Place the largest object into display first.

Colour: Helps setting in mood and feelings.

Focal point: Where merchandise, props/signage and background appear to come together.

Lighting: Should emphasise focal point, if possible.

Simplicity: Less is more, so decide the limits where to stop, avoid clutter with too much merchandise, props. It is especially, important in apparel, life style retailing.

Sometimes, it is termed as **minimalist approach.** It is specially used in case of luxury or lifestyle retailing. If in some display window, some merchandise item is surrounded by empty space, then it is perceived as luxury. On the other hand, if few items such as apparel of odd sizes, out of season, accessories like gloves are put in bin, these give bazaar like feel to the customers and perceived as good bargain by the shoppers.

The retailers may make use of minimalist approach and creating bazaar like feels simultaneously in the same store.

Exhibit 12.9

Need and Importance of Visual Merchandising

"Feel good factor" is of utmost importance in the modern retail formats. The use of creativity, novelty and theme in VM is important towards the creation of this factor every time the shopper visits the store. For shoppers, shopping is not an end in itself just to acquire goods and services, but is a medium to socialise and experience so many things. While in store, the rousing emotions, involvement of senses and application of mind are directly linked with VM. So, VM helps in making overall store atmospherics interactive and responsive to consumer needs.

The consistency between various VM elements and merchandise is important to enhance retail shop-ability and thus, increasing sales. This is especially, important in impulse selling. The primary objective of the visual merchandising is to increase footfalls into the stores, convert prospective buyers into buyers and buyers into loyal customers. Thus, increasing sales of the retailer and other businesses. With better visualisation of products and brands, it helps the shoppers to take buying decisions.

Visual merchandising also refers to the coordination and integration of all physical elements in the store so that it projects the right image to the shoppers. This includes store design and layout. The right image helps in competitive positioning of the retailer. This also helps in replication of success of retailer's business at different places. Nowadays, the technological advancements like Radio Frequency Identification Devices (RFID) and Magic Mirror are available to aid and enhance the impact of VM. Visual merchandising offers other benefits as well:

- (i) It is easy for the customer to locate the desired merchandise in the store with the help of VM.
- (ii) It helps in introduction of new products in the market, especially in case of fashion and trendy merchandise. Through VM, the retailer tries to sell the most profitable merchandise. It also helps

- in keeping the mark-downs at a comparatively lower levels. Change is an important factor in the retail environment to which all retailers must respond. VM is a technique to reflect the changes adopted by retailer in response to changing needs of the shoppers.
- (iii) In addition to retailers, the manufacturers also make use of the concept of VM for their showrooms, marts, trade shows and development of display aids for retailers.

Visual Merchandising is, especially applicable in case of apparel, watches, gems and jewellery, beauty products, fresh fruits and vegetables to name a few, though every type of retailer tends to maximise sales with help of effective VM techniques. With the artistic use of VM, the retailers can construct various themes to supplement the sales effort. VM is extensively used by hospitality industry and other service industry retailers. The museums, trade associations, educational institutions also make extensive use of VM.

Impact of Visual Merchandising on Different Stages of Process of Consumer Buying Behaviour

Visual merchandising has impact on different stages of consumer buying behaviour process. It educates the customers, creates desire and finally augments the selling process. It is closely associated with the psychological factors which operate at micro level like motivation, learning, perception, attitude and emotional involvement. These factors work at sub-conscious level and gets more activated when the customer is inside the store and where decision making is involved. That is why the VM is referred to as silent salesperson.

The impact of Visual Merchandising on the various stages of Consumer Buying Behaviour is being discussed as under:

Input Stage of Consumer Buying Process The sales efforts of retailer in terms of visual merchandising play an important role. VM tools and techniques like exterior signages, banners, design, landscaping, etc. are crucial at this stage. As per one survey report, in case of apparel goods, 47% of total customers take idea from window display.

Visual presentation has an advantage over broadcast and print advertisement as over 60% of all women get their clothing ideas from store displays. Mannequins, a tool of VM in apparel merchandise, play an important role in promotion of the products.

VM has been effectively used by Louis Vuitton, Armani, Levi, Pepe Jeans and other lifestyle apparel brands in an effective manner in their stores.VM is primarily an eye stopper. The shoppers can easily recall the brand which is supported by creative presentation. The retailers and brand managers intend to 'reinvent' the product and brands before shoppers with the help of VM tools and techniques.

Need Recognition There can be two sets of needs. Some consumers have 'must have' need of a product to find a solution to a particular problem. Such products usually have some functional value. Impulse needs are triggered by the environment and mostly have emotional content. It is in the second set of needs where the VM plays a crucial role.

Three-fourth of women shoppers go to a store with specific product in mind. Of these, 70% come out with specific product plus additional product or product/s totally different from the products originally planned. Effective merchandise displays change the perception and need pattern of the shoppers.

Pre-purchase Search During this stage, the shopper collects information about source of the needed product. Here, the shopper tends to rely on the past experience also. About 78% of the shoppers have some retailer/store in their mind. This makes the retailer a destination retailer. This may on the basis of store interiors, window displays, music and lighting, etc. It helps in competitive positioning of the store

and creation of store image which facilitates pre-purchase search. VM nurtures positive image of the store among shoppers.

Evoked Set and Brand Evaluation The shoppers have only selective exposure to advertising and sales promotions. They may not be aware of each and every brand at a particular moment. The consumer response towards brands may vary from being highly motivating to indifferent to negative. At any moment or at the time of making purchase decision, only few brands may be under active consideration. Thus, the shoppers evoked set has only certain brands. The VM plays an important role in creation of evoked set.

Further, the store aesthetics and focus on certain brand features help shoppers in brand evaluation.

Planograms Another important dimension in merchandising is referred to as Retail Shelf Merchandising. It is also known as planogramming. The end product of planogramming process is planogram.

Planogramming can be defined as the art and science of displaying products, stock keeping units and placing the brands on the shelf of a retailer. The displaying is based on various parameters on inventory turnover, percentage contribution of product to total sales turnover. Planogramming can take into account price and description of the merchandise and signages to be used.

A planogram helps in placement and visualisation of merchandise along with various fixtures, shelves and walls. These are used by chain stores to display merchandise in the most optimal manner and to achieve standardization across many store locations of the retailer. But with the kind and amount of POS data, it can help in implementation of localisation strategy as well. It takes into account the consumer buying habits.

The manufacturer can also play an important role in the process of planogramming. Wal-Mart through retail link programme works with its suppliers to generate planograms to customise according to merchandising requirements of local markets. Many options for shelf management are generated before the retailer with the help of computers. The space management and change, the important objectives of visual merchandising, are achieved through planograms.

Important Aspects of Visual Merchandising and Store Atmospherics

Effective visual merchandising alongwith fixtures and their placement within the store space manages the customer flows and delivers a better engaging experience to the customers. There can be too many concepts and options available in store design and visual merchandising to confine them to single chapter or even book, but an attempt has been made to familiarise students with certain concepts. In today's dynamic retail environment, there should be flexibility in VM so that innovation and newness become the rule rather than an exception, and the store never loses its appeal and makes the shopping experience exciting.

Store Atmospherics is closely related to the store environment and refers to conveying positive image of the store to customers through visual communications, lighting systems, colours, music and scent. The motive of store atmospherics is to attract customers towards the store and then merchandise items with the motive of positive purchase behaviour. Various elements linked with VM and store atmospherics are discussed as under:

Graphics Graphics are important to give novelty to the retail theatre. These can be theme based, which are followed throughout the retail stores or chains or these can be specifically linked with particularly with the promotional campaigns. Graphic elements can be painted with attractive colours so that they can stand against the otherwise dull wall or background material.

Signages They supplement other visual cues. These are specific lettered messages which guide customers towards the store and merchandise. These facilitate communication process inside and outside the store. These are about external as well as internal communication. Signages are of two types—External and Internal.

External Signages There should be some key attraction to pull customers finally into the store. External signages are important in this direction.

- External signage along with front entrance and windows is the face of the store.
- These signages are basically meant for two types of traffic: firstly, for the people sitting in and driving the cars, and secondly, for pedestrian traffic walking through the front of the store.
- External signages invite customers from different distances. Main signage makes appeal to customers approaching store from a distance of 170-180 feet, and the storefront signages makes impact from a distance of 60-70 feet.

Internal Signages Since the trend is now towards self-service formats, internal signages are gaining importance.

- These mostly function within a distance of 20-30 feet. The customer gets focused on 3-5 key sales offers or key features with the help of signages.
- These help in locating merchandise.
- These give information about basic features and pricing; help in promoting the merchandise. Internal signage is also called Point of Sales Signage. In big stores signages also give information about aisles, service areas, departments and other facilities.
- Some signages are visible from any part of the store and others are not.
- Now as LCDs are becoming cost effective, these are increasingly used for signages.

Effective changes and motions on LCDs generate more customer interest.

In some stores like @Home, the entrance has a complete store directory showing the customer category-wise break down of the store. In addition, category-wise signages are clearly visible in passages.

Digital Signage It is out-of-home advertising in which content and messages are displayed on digital signs, typically with the goal of delivering targeted messages to specific locations at specific time. These made use of bright colours. This multiplies the visual impact of signages.

Flagship Store: Flagship stores aim at brand building. These are large, usually located in popular and high street market locations, where visibility is good. These keep full range of the merchandise. These stores make world of mouth advertisements and help in media publicity. The new products are preferably introduced at flagship stores and then in other stores. These stores work as role models for franchisees other stores of the retailer. These may get preference in advertisement budget of the retailer.

Exhibit 12.10

Colour Scheme Colour scheme as a visual communication tool, work as eye stopper and convert passersby into buyers.

- Colour scheme should match with the theme of display. Colours in the store design and visual
 merchandising should be associated with festivals, other special occasions and gender. Like
 Christmas with red and white, Valentine with red and pink. During marriage season in India, the
 ethnic wear and jewellery retailers make extensive use of red and other vibrant colours.
- The different colours are associated with different states of mind. Like red and orange are associated with youth and vibrancy, white with calmness and green with environment and freshness. Thus retailers can make use of colour combinations according to their target shoppers.

Levi's makes liberal use of red colour in theme displays in its stores, the 'more' supermarket chain uses orange colour at entrance and across the store to create a vibrant image of the store. The Reliance Fresh uses green colour with orange and others to reinforce its image of providing fresh vegetables.

Lighting System Light is an important aspect of visual communication. The impact of lighting on colour scheme and consequently on visual merchandising is extremely important as light itself consists of colours. Many colour combinations are created when light falls on merchandise. VM emphasises attractiveness of merchandise based on texture and colour using appropriate lighting.

- The importance of lighting in visual communication has increased due to the fact that now stores make more use of reflective surfaces whether it is in flooring, ceiling or other fixtures.
- Incandescent lighting is natural favourite of the customers because they live with that kind of lighting at home. It should be part of planning light at store.
- Incandescent lighting is used in specialty stores, boutiques and other lifestyle stores.
- The light bulbs can be used behind protective shields, fitted with lenses to disperse light or focus light on the merchandise.
- Many furniture and fixtures like gondolas come with in-built lighting systems.
- Chandeliers can important part of lighting in stores where glamourised environment is required.
- Lightbulbs, if used in grid pattern on ceiling, can guide movement of customers in a specific direction.
- The light in combination with shadow can be used to create depth and bring out specific qualities, texture of merchandise such as home furnishing products like curtains and carpets. The lighting is also important for furniture retailers.
- Special lighting is specifically required in merchandise like jewellery and cosmetics as it helps buying decisions. It is also important in restaurants and hotels.

Display Props These are useful in visual merchandising. These are functional structures and have importance in supporting merchandising concepts or themes to bring completeness in them. They set the mood and also used for decoration. Display props can be available in countless options, depending upon the creativity of visual merchandisers.

Texture Texture is basically surface treatment or feel. Smooth surfaces and textured appear lighter and darker, respectively. It can be suggestive of feminine verses masculine characteristics also.

Line Line patterns in merchandising convey many things to the customers in the stores. As VM basically deals with customer psychology, the line patterns can convey many things to the retailers:

- Vertical lines pattern convey strength, height, pride and dignity, e.g. a formal dress fits better into this kind of pattern.
- Horizontal lines pattern reflect easy going and relaxing attitude.
- Curved lines convey feeling of grace, charm and feminine. It can be used in display of ladies collections.
- Diagonal lines signify action, force and strong.

Windows The windows can be mainly in different shapes such as straight front, angled front, and corner. The store can be windowless also. The main characteristics of the windows are as follows:

- They are eyes to the interior of the store.
- They are the introduction of the store to the outsiders. They project the image of the store.
- They strengthen the traffic and sales of the store.

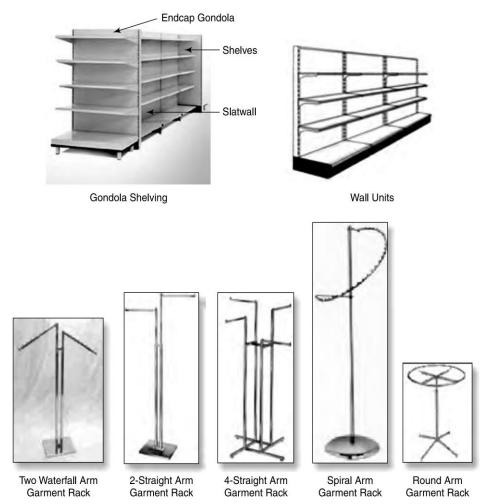


Exhibit 12.11

Balance The concept of balance also supports certain aspects. For example, if the pattern in VM is to be formal, it pattern should be symmetrical. If informality is to be the hallmark of display, then the pattern should be asymmetrical which makes it more interesting.

Dominance and Contrast It may be required to highlight the certain aspects of merchandise. It can be put into effect with the help of colour combinations, size or position. It is used to attract the eye first. The contrast can also be used in the visual displays to differentiate merchandise from other objects in the theme. It can also be done with the help of colour or texture.

Fixtures The fixtures can be used as effective sales tool especially, in case of self-service retailers. The fixtures are used to supplement gondolas for the purpose of holding and display of merchandise. Store fixtures are a balanced mix of metal and timber. The fixtures should be integrated into the store environment. Retailers may prefer modularity in the fixture as it offers flexibility and better display. They find special use in apparel retailers.

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Straight Rack Straight rack is the most common fixture to hold apparels and is the long pipe fixed at both ends.

Rounder Generally, a rounder is designed to hold upto 136 garments. They are available in adjustable height so as to hold merchandise of different sizes. The shoppers walk around it to select the merchandise. The merchandise presentation should be logical, and can be on the basis of price line, lifestyle, etc.

Quads Quads are used to display merchandise relating to one manufacturer so as to have continuity in design, style, fabric and price line. These can be used to sell complimentary goods also.

Gondola Gondola refers to system of shelving and merchandise presentation in a longitudinal manner. The shoppers move along aisles with gondolas on both sides. Gondolas system fits into almost every merchandise type and retail format. Most of the time, the gondola is of wooden or steel framework. The shelves can be of glass, laminated wood or any other material like bullnose.

- The more the volume of product, the more should be the gondola shelving and so, mostly used in convenience stores, supermarkets. These often require the simultaneous display and storage of many items.
- The higher the gondola system, the more merchandise can be stocked, but that will decrease customer visibility. It increases chances of shoplifting. Moreover, more manpower assistance will be required to pick the items that may create disturbance.
- The retailer can increase the width of gondola to stock and display more goods, but that will reduce the aisle width and thus, causing traffic congestion and inconvenience to customers. Normally, the width of aisle is between 4-6 ft.
- If the gondola is placed against a wall and with greater height possible, it is called "Wall Unit". In "Aisle Unit", two gondolas placed back to back and allows creation of an aisle. Mostly both types are used simultaneously in a store, especially in convenience and grocery stores.
- Gondola shelves are generally available in standard length sizes. They can also be combined to get the desired length.
- The other modular options can also be used so as to make changes at a later stage.
- The "start on" gondolas have extra strength and weight and are used at both the ends to give extra strength and other "add on" gondolas are just added to it.
- End of the gondolas are specially used for attracting customers and impulse sales.

Slatwall The gondolas are commonly backed by slatwall, available in various material options. They enhance the appeal of merchandise if used in right colour and texture combinations. Slat walls are used on walls for display purpose.

In nutshell, discussion in the chapter gives some idea about how to create the personality of your store. Designing this personality to create an alliance with your brand is vital to the success of any retail business. Once the personality develops, then 'tone of voice' and 'talks' follows to achieve the retailer's objectives. The overall effect is that a store can link directly to retailer's marketing strategies to create a strong uniform message to the customer.

[Summary]

Nowadays customers look for theatrical ambience at the retail stores. Store planning and layout, designing, visual merchandising have to be integrated by the retailer to offer desired customer experience. Store layout is the physical arrangement of departments and facilities in the retail store. Store design is the function of location, architecture, store theme and layout, with the objective of drawing customer into the store.

- ➤ The store layout achieves of implementing store image, enhancing the efficiency of store, maximization of sales revenue, prevention of shoplifting and also increasing the energy efficiency of the store.
- > Space mix is categorised as selling space and non-selling space. The building byelaws have also to be taken into account.
- There are three types of store layouts. Grid layout is linear system of shelving and mostly used by supermarkets and hypermarkets. Loop layout moves alongwith perimeter of the store with departments on both sides of perimeter. Free-flow is not very structured and creates friendly store atmosphere, encourages shoppers to explore the store.
- ➤ The store layout and design entails four main steps—selecting the basic store layout type, allocating selling space to different departments, locating departments within the stores and organising merchandise with the departments. Retail cartography is the technical term which is used in context of mapping customers' traffic patterns.
- ➤ Visual merchandising is the term used for visual communication about the merchandise. It is an art of presentation of merchandise. It is much more than window displays. It facilitates navigation of merchandise, introduction of new merchandise items in the store. It is especially useful in higher end products. VM has positive impact on all stages of consumer buying behaviour such as input stage, need recognition, pre-purchase research and brand evaluation. Planogramming is the application of technology in retail shelf merchandising.
- ➤ Graphics, signages (internal, external and digital), colour scheme, lighting system, display, texture, windows, balance, dominance and contrast are the various terms associated with visual merchandising and atmospherics. Among store fixtures, straight rack, rounder, quads, gondolas, slatwalls are the important terms.

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-{Revision Exercises}

■ ■ Very Short Answer Questions

- 1. What is retail layout?
- 2. What are the main aspects related to store design?
- 3. How space is the most precious resource for retailers?
- 4. What are prop ups?
- 5. What is retail cartography?
- 6. What are signages?
- 7. What is flagship store?
- 8. What is the store atmospherics?
- 9. Write a short note on window displays.

Short Answer Questions

- 10. What are the different methods of merchandise presentations?
- 11. What are the different types of fixtures?
- 12. Write a note on colour scheme and textures in context of visual merchandising?
- 13. What are the main guidelines for store layout and designing?
- 14. What are the essentials of effective visual merchandising?
- 15. Discuss space mix?

Long Answer Questions

- 16. How does visual merchandising impact various stages of consumer buying behaviour?
- 17. Discuss the process of store layout and designing?
- 18. What are benefits of planned store layout? Discuss different types of layouts?

CHAPTER

13

Promotional Mix in Retailing



After studying this chapter you should be able to understand

- ✓ explain the need, objectives, elements and strategies of promotional mix in retailing
- elucidate and compare the various promotional tools such as advertising sales promotion, publicity and personal selling
- ✓ discuss and compare the various media options before a retailer

■●■ Introduction

Now-a-days nothing sells without the backing of some sort of a promotional strategy. Name anything, from consumer durables to Fast Moving Consumer Goods to services, promotional efforts are undertaken by the sellers in one form or the other all the time to promote their products and services. Every trick mentioned in the books and coming out from one's own thought process is being explored and tried in the world of advertising and sales promotion.

Now, let us discuss it in the context of marketing or retail mix. Promotion is one of the Ps of retail mix. As discussed in the first chapter, the effective promotion and communication with the final consumers is vital for the success of retail business. Retailers have been using formal methods of communication with the customers for a very long time.

■●■ What is a Promotional Mix?

Promotional Mix in common parlance means planning, designing and implementing comprehensive plan to communicate with potential and current customers about the product offering in an interactive manner. Communication itself is passing of information, sharing of ideas with the purpose of developing understanding between the sender and the receiver of the message.

The retailer needs to understand the main concepts relating to communication while designing any plan to communicate with the customers. In this chapter, the terms promotion and communication have been used interchangeably at places. The most important aspects of promotional or communication mix has been discussed as under:

Audience Who is the target receiver of the message? What kind of prospective buyers the retailer is aiming at to sell its merchandise? The definition of audience depends upon the objectives and assessment of retailer.

Engagement What kind of the messages the retailer should try to communicate to the customers? How the messages should be delivered? It is important to determine communication needs of audience and means to reach them in an effective manner.

Response Whether the promotional or communication objectives have been achieved or not? It is important to determine whether there are desired changes in the perception and behaviour of consumers after delivering the message.

■●■ Need and Objectives of Promotional Mix in Retailing

For a retailer or any other marketer, it intends to accomplish the following tasks:

Differentiation of the Store, Product and Services The product offering of the two competing stores may be same, but through promotional mix, the retailer can try to differentiate its offering from those of competitors.

Product Information To make customer aware about the retailer's offering, its benefits, technological features, usage, various services offered by retailer etc.

Consistent Reinforcement The purpose is to retain current customers through reassurance by communicating with them. In this era of information overload, when there is so much clutter of marketing messages, there is need of continuous reinforcement.

Persuasion The motive of each retailer is to motivate customers to enter into exchange relationship, by engaging them in a positive manner.

Buildings Brands and their Extension With the help of promotional mix tools, the retailers first develop their brands and then try to extend their brands to other products. There are usually two direct brand objectives in case of modern retailers, first, to develop store as a brand and second, to develop private labels, in addition to support the national and international brands.

■●■ Promotional Mix and its Strategies

There are different audiences with different characteristics. And different messages and media mixes are required to reach them. There are three 3 Ps of the promotional or communication mix. These take the shape of three strategies which are generally adopted by the retailers. Each is based on the broad target audiences which can be part of overall communication or promotion mix strategy. These are given as under:

Pull Strategy In this strategy, communication is directly with the end-user consumers. In this strategy, generally retailer, as a member of distribution channel, becomes beneficiary of the advertisement efforts by the manufacturers. Customers in response to advertisement demand product from retailer, which in turn will place order to wholesaler and wholesaler will place order to manfacturer. This demand is created across value chain.

The big retailers themselves try to reach out prospective customers in a more direct manner. All big retailers such as Subhiksha, Big Bazaar, Shopper's Stop, Lifestyle, McDonald's Pizza Hut, Koutons are spending large amounts on the advertisements to attract customers towards their stores. Local retailers generally rely on mass media such as newspapers to attract customers to their stores. They also try to attract customers towards their stores through advertisements to promote private labels.

Push Strategies These strategies aim to communicate with the channel intermediaries such as distributors and retailers, which themselves do not consume the product. Here, the role of each channel member is to add some value to the product before pushing it to others, with end-user customer being the final link in the demand chain. The marketing resources are distributed across the channels. Personal selling is the most important push strategy at the retailer's end, if done effectively. Direct selling is also an important aspect of push strategy.

The Exhibit 13.1 gives us realistic idea about how to use both strategies in combination with each other. In this diagram, manufacturers while pushing the product through the distribution channels, also advertise them, mostly at national level. Retailers can also advertise product at their own level through local media. Unique Selling Proposition abbreviated as USP in Exhibit 13.1 is about communicating differentiating features of the product to the prospective customers.

Profile Strategy It focuses on development of retailer's image. Public relations and sponsorships are important dimensions of profile strategy.

Most of the times, the retailers use the above strategies in combination with each other as a part of overall communication mix. The communication mix strategy has to be part of marketing strategy which should further integrate itself with the overall corporate strategy.

The various communication tools, messages and selection of media depend upon the type of strategy to be adopted by the retailer.

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Reference: Business Line, Internet Edition, dated January 08, 2004.

Exhibit 13.1

■●■ Elements of Promotional or Communication Mix

Three important elements of promotional mix are as follows:

- 1. Messages
- 2. Promotional Tools
- 3. Media

Messages

Message development is sometimes termed as the **Creative Strategy**. It includes determining the basic appeal and message of the seller to the audience. The promotional tools, especially advertisement are designed on the basis of the messages to be conveyed. Promotional messages are broadly of two types: Information-based and Emotion-based.

Information-based Such as based on facts, real life situations, demonstration and comparative.

Based on Facts The representation of information in a logical, rational and straightforward manner. Messages to sell food products, medicines, financial products generally belong to this category.

Real Life Situation E.g. Subhiksha using Indian middle class housewife in its communication messages.

Demonstration Offering solution to some problem such as retailers selling kitchen equipments, cooking aids or beauty products persuade prospects to buy the products by demonstrating the product.

Comparison with Competitors When the two or more brands/stores are compared. Big Bazaar using the campaign line "Is se sasta aur badiya, kahin aur nahin milta." and LCD TV seller comparing features of own brand with those of rivals' brands in print media can be taken as certain examples.

Emotion-based Such as fear, humour, animation, attraction towards opposite gender, music and daydreaming.

Fear Retailers creating a sort of emergency situations for shoppers with messages—Life Time Opportunity, Now or Never, Offer Valid Only for Today, Limited Period Offer etc. The insurance product sellers make some use of fear factor in their messages.

Humour Placing shoppers in a humorous situation. Generally, the sale people can try to make the selling situations humorous so as to involve the customers in a sentimental manner.

Animation These are generally used to make products more interesting and especially to reach out to children as prospective customers. Dabur Honey has roped in 'Winnie the Pooh' to feature in Dabur Honey's 'eazee squeeze' pack by partnering with Disney Consumer Products.

Gender Use of opposite gender to get attention of the target gender.

Music Music is generally played for attracting customers towards retail stores. The music, if used in a right way, increases the ambience of the store.

Daydreaming By making fantasies a part of communication message, retailers can try to take shoppers away from real life situations and closer to their product offering.

Tools of Promotional Mix

The main tools of promotional mix are as follows:

- 1. Advertising
- 2. Sales Promotion
- 3. Public Relations and Publicity
- 4. Personal Selling

In addition, many retailers use Direct Marketing as promotional tool which has been discussed in Chapter 3 on Multichannel Retailing. An attempt has been made to give a simple idea about the various promotional tools on the basis of payment to be made for carrying the business's message and personal involvement of the retailer in communicating the message in the following exhibit:

4	Impersonal	Personal
Paid	Advertising Sales Promotion	Personal Selling, Direct Selling
Unpaid	Public relations and Publicity	Word of Mouth

Exhibit 13.2

These tools can be used in various combinations to reach the target audience, sometimes termed as **Integrated Marketing Communication**. The ultimate aim of any retailer can be to achieve word of mouth, which is dependent upon the value proposition and customer satisfaction and does not entail any cost, at least theoretically.

Advertising Advertisement has become an integral part of our life. Without it, life would have been very different. The advertiser will purchase the time and space in some media vehicle which would help

in reach their message to the prospective customers. It is sometimes termed as Mass Promotion or Mass Selling Technique.

Advertising can be defined as non-personal and primarily out-of-store promotion where generally some mass media is used, and is paid for by an identified sponsor. This definition has got four components:

- 1. It is a **paid for** promotional tool.
- 2. It is **non-personal** communication.
- 3. It is mainly **Out-of-Store** communication.
- 4. **Sponsor** of the advertisement can be easily identified. It is one of the channels of information for consumers with the following features:
- Speed
- Economy
- Impact
- Convenience

Theories of Advertisement There are basically two opinions about the advertisement. As per the **Strong Theory of Advertising**, put forward by Jones, advertisement can persuade people to buy a product which have not been brought earlier by them. It can result in long-term purchase behaviour. It can create brands.

As per the **Weak Theory of Advertisement**, advertising is a weak force and customers are active information processors. Advertising is deployed as a defensive measure, to retain customers and to increase the use of product or brand.

According to **ATR** (Awareness-Trial-Reinforcement) framework, **awareness** is important before making any purchase decision, only a small number of people who are aware will actually go for **trial** of the product, **reinforcement** follows to maintain awareness and provide reassurance to customers so that they keep coming to the store.

Benefits of Advertising It is basically an awareness programme, aimed at managing demand and increasing footfalls. Retailers at the local level use local media for the purpose of advertisement. Pricing is the main attribute highlighted by the retailers in advertisements. Sometimes, the retailers and brand manufacturers share the advertisement expenses, termed as **cooperative advertising**. The retailers can reap following benefits through advertising:

- **Increased sales** Advertising helps in building up the demand of merchandise, the people demanding the goods at retail stores and results in the purchase and consumption of goods at a bigger scale. In addition to the sale of advertised product, it increases the opportunities for cross selling the products.
- **To offset competitor's advertising** Retailers as is the case with other businesses may try to defend the market share by responding to competitors' campaigns with their own advertising.
- Managing demand of merchandise It wards off the affects of seasonal fluctuations to some extent and helps in maintaining steady demand. Conventionally, the demand for certain products is higher during the festival season, but with advertisements, the consistent demand can be built throughout the year. The motive of advertising is to move the demand curve to the right.
- **Higher inventory turnover** It helps in cutting down inventory related cost. As the turnover is higher due to advertising efforts, the inventory cost per unit of merchandise is lower and profitability is higher.
- Supplements personal selling efforts It supplements the efforts of salespersons at the store level as the customer has previous knowledge of the product through the advertisements. The advertising can make the job of the sales force easier and more effective by attracting leads from potential customers.

• **Building brands** The retailer can build brand with the help of advertising. Retailers like Reebok, Adidas, Nike, Koutons, McDonald's, Subhiksha, Future Group have been able to build brand with the help of advertising.

The advertising also helps consumers in several ways.

- **Facility of purchasing** Sometimes, the prices of the products are well-advertised, with schemes so that customer has the assurance that he or she is not overcharged.
- Improvement in quality of merchandise When the product is well-advertised, the retailers are also prompted to stock-branded products with assurance of quality. This is scenario under pull demand.
- **Disintermediation** When the product is well-advertised, the customers will demand the product from retailer. Big retailers, such as store chains, can buy directly from the manufacturer and can avail higher margins.
- Educating consumers Advertising educates consumers about the new products, their new and diverse uses. It also paves way for better standard of living. The consumers can appreciate the utility of the products in a better manner.

Key Trends in Advertising The key trends emerging in case of advertising are:

- 1. Fragmentation of audience Audiences and markets are becoming smaller and smaller. There is proliferation in number of channels, vernacular newspapers, magazines. Purchase behaviour of consumers is becoming more localised and individualised etc. Now, there are many channels for covering news, spirituality, music, fashion, children etc. Each TV channel has its own target audience.
- **2. Channel convergence** On one side where there is proliferation of channels, on the other side, channel convergence is also taking place as features of many conventional media are combined into one. More and more services are being bundled together and served by the single service provider. Such many DTH service offering satellite channels and radio channels in the same package.
 - Now Interactive TVs may be functioning as PCs in days to come in India also. Satellite channels can be accessed through mobile phones also. BSNL is offering IPTV service to the existing broadband and landline customers, with all the three services being provided through the same wire. Hence, switching from one media vehicle to another is becoming quite easy for the audience.
- **3. Interactive marketing communications** Now, through newer electronic media provides for customised, one to one exchange of information.

Among these, the advertising needs media to reach the audience. In most of the cases, the media is owned by third party organisations, though there are certain examples of retailers owning the media. Now with the proliferation of media, its selection has become important to reach out to target audiences, which are getting more and more fragmented, also called niche retail market segments.

Forms of Advertisements used in Retail There can be many forms of advertisements used in retail, but the main forms are being discussed as under:

In-Store Advertisements In the chapter on Store Layout and Visual Merchandising, many aspects of in-store advertisement such as visual displays, signages etc. have been discussed in detail. In addition, manufacturer in collaboration with the retailer can distribute the pamphlets etc. in the stores. This is also termed as Point of Purchase (POP) material.

The primary packaging is primarily meant for the safe carriage and storage of the product and can assumed to be part of main product. The secondary packaging of the material specifically serves the purpose of in-store advertisement and enhances brand value of the product. This is specifically used by the shopper to compare alternative brands available at the store and help in them in taking buying decision. Retailers can also promote the private brands with the help of in-store advertisements.

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Here, it is important to mention that store-in-store concept also works as in-store promotion, as the retailers selling complimentary products help in increasing footfalls in the store and get benefitted from each other's traffic. Qwiky's has established itself as a household name among youngsters, which can be largely attributed to store-in-store concept. Some customers specifically go inside the main retailer's store for Qwiky's products (food and beverages) which are primarily based on the youth's preferences.

The **cross promotions** are also important as in-store promotions wherein the retailers allow each other's products to be promoted and sold in their respective stores on mutually beneficial basis. This arrangement can exist can be for specific events also like Archies has had cross promotions with McDonald's, Barista, Café Coffee Day and Nirula's. The brand value both the parties enhance. Pizza Corner has also entered into this kind of arrangement with Lifestyle, Airtel and Hutch.

Re-labelling the product offering in a greener way

Reckitt Benckiser, maker of **Dettol** and **Harpic**, is kicking of an exercise to re-label all the products with a green panel- informing consumers on optimise use and how to best dispose off the products. The move is in line with its 'Carbon 20 Programme' aimed at reducing total carbon footprint of the company by 20% by year 2020. It will be backed by:

- On-pack information
- Extensive in-store promotions
- Advertising campaigns

The company will use the strapline 'greener ways to clean and save' in addition to 'our home, our planet'.

Reference: The Economic Times, dated January 9, 2008.

Exhibit 13.3

Outdoor Advertisements The outdoors advertisements are static displays, placed at key locations which are visible to the prospective customers. It may depict epigrams, quotations, slogans etc.

It has been the conventional way of communicating with the prospects, used by the retailers. Outdoor ads offer a big opportunity as there is greater mobility of people, as millions of people move out of their places to work in Metro cities. Increase of women in the workforce has given outdoor advertisement, a further impetus. The outdoor advertisement can be done in the following ways:

• **Billboards** These are big-sized posters, in the form of sheets sometimes depicting larger than life images, also termed as hoardings in common parlance. Digitalisation, use of lights have further enhanced the appeal of billboards as a medium of advertisement.

Now, **mobile billboards** are also being used to convey the message to the places, where it is not possible to put static billboards. They are usually carried on a vehicle.

- **Street Furniture** It is generally in the form of bus shelters, taxi shelters etc. It is basically an urban advertising form.
- Transit ads On the sides of buses, taxis, trains.
- Glowsigns and hoardings are also commonly used in the outdoor advertisements.

Companies are using LCD screens for purpose of advertisement. Standard Chartered Bank has tied up with taxi drivers to carry out its advertisements. Big Bazaars are also using transit ads in a significant manner. Planet M is using roadside ads. These ads are put alongwith messages such as 'Drive Slowly'. Metro Railway stations in Delhi is also been used for outdoor ads. The outdoor advertising has become a good source of revenue for the government, municipal corporations.

Advantages

1. Cost effective

- 2. High repetitive value each time a person passes by, they may look at ad.
- 3. Long life of message

Disadvantages The outdoor advertisements entail high fixed cost and less flexibility in terms of changing messages. Now it is facing some problems with restrictions imposed by law with the purpose to ensure safe driving.

Online Advertising Now, the term Netizens is specifically used for the net surfers, which are mostly young. Sellers like Archies, a leisure store chain and Qwiky's, a quick service food retailer alongwith many other retail organisations are already making strenuous efforts to exploit potential for youth marketing on the Internet. The e-mail campaigns of many retailers and other sellers for their registered customers have turned out to be quite successful. Now, many options are available for online advertising and marketing:

- 1. **Display Advertisements** Static banner ads, generally used for creating awareness or direct marketing objectives.
 - Banner ads take a variety of names such as side panels, skyscrapers or verticals.
- 2. Rich Media Advertisements These are embedded multimedia ads, pop-up ads, interstitials. Pop-ups are larger than banner ads and appear when a certain site is visited.
 - Pop-unders appear underneath the web page and become visible only when the user leaves the site.
 - **Interstitials** are the ads that appear while the contents from a website are being downloaded. **Links** are not the direct advertisements but they offer the surfer the option to get linked with some related site which may provide some additional material.
- **3. Search Engine Advertisements** Search engines such as Google and Yahoo! have partnered with many websites on the basis of search by keywords and site contents. They drive traffic towards product supplier's website.

Advantages of Online Marketing

- 1. Target Marketing The specific customer groups can be targeted with the help of online advertisement, though a database is required. In some cases, the database can be generated in a spontaneous manner. The message can also be tailored according to the needs of the e-retailers.
- **2. Interactive and Creative** The internet is interactive and it provides spontaneous and instantaneous response from the prospective buyers.
- **3. Economical** It provides large exposure, even for companies with limited budgets. It offers immense sales potential.
- **4. Speed** It is the most economical way to communicate the message almost instantaneously.

Net Profit to Stay Mobile

Many advertisement s firms like Bangalore based Adventure are actually looking depressed market scenario as an opportunity as the perception of their clients have undergone change. Harsha J of Adventure says "Almost two thirds of our clients are thinking differently now. Earlier the focus was more on conventional mass media but they gradually realized that online and mobile advertising could be effective and measureable modes to reach to their desired target group. We have seen a growth of 10-15% over the last couple of months".

It is not hard to see why. Compared to television, print, radio and even out-of-home advertising, Internet and mobile based communication is more easily measurable and interactive. A report by Digital Marketing Firm Pinstorm estimates that online advertising—including display, search based and other methods—increased from Rs 425 crore in 2006-07 to Rs 700 crore in the current year. The 250 million mobile user population too makes mobile marketing a lucrative communication channel for brands. Pinstorm estimates that the mobile advertising industry including

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WAP and SMS has grown from Rs 20 crore to Rs 50 crore in 2008-09. The digital advertising industry has shown a growth of 24% than anticipated 35%. As per YY Kim, Director, Marketing "Online advertising works very well for our technological based products like MP3 players, notebook PCs, mobile phones, LCD and Plasma TVs". The online advertising spend of Samsung in India is likely to increase from 1% of current advertisement spend to 2%. In recessionary times the companies want to ensure better visibility and returns on their ad spends. The advertisements on web can be measured better than conventional media. No doubt, the ad firms like *mKhoj* have grown ten times during last two years.

According to Subhash Lal of ThinkingDesign "There is good 30–35% cost saving on web vis-à-vis print". The firm provides brand identity, language and strategy services to clients in the fashion, home décor and jewellery businesses.

According to Suresh Narasimha, co-founder of TeliBrahma, a provider of Bluetooth enabled mobile phones is increasing. He says that acceptance of Bluetooth-enabled mobile phones is increasing. He says acceptance of Bluetooth advertising is 10–15% in retail locations, 30–40% hangout places and more than 60% in events. "There is more value in digital media, and brands can benefit, if they integrate planning and measurement. Small companies would benefit with increased penetration and change of mindset", he says.

Reference: The Economic Times, January 16, 2009.

Exhibit 13.4

Advertising Copy All the planning and resources will go waste if the advertisement copy is not able to convey the right message. Persons involved in the making of advertisement copy must be thorough with the mental processes and be imaginative enough to think of words and patterns so that advertisement copy is able to generate the desired impact.

Thus, the advertisement follows the process of AIDA—Attention, Interest, Desire and Action. First of all, curiosity attracts the attention of mind to something that has some appeal. The mental function of memory (record keeping) also comes into play. When the mind focuses its attention on the same or similar object again (and again), the memory puts up the record of the earlier impression before the mind. Then comparison and association of ideas takes place. With repetition, the association may convert into firm beliefs or convictions. The process is reinforced if the customer is satisfied with the purchase decision of the advertised product.

Desirable Characteristics of Advertisement (or Message) Copy These can be taken as characteristics of the message copy also, which are applicable to all communication tools such as advertisement, sales promotion, personal selling. The advertisement or message copy should have the following characteristics:

Attention Value The copy must have first rate display value. The prospects are time poor and under no
obligation to notice the advertisement; so, making impact in the very beginning is a must. Even the most
casual reader should be able to take a note of it. Various tools are used to enhance the value of copy as
follows:

Use of pictures *Seeing is believing and one seeing is worth thousand tellings.* Pictures used must tell the whole story about the offering.

Use of Display Types The ad copy can have appropriate headings, slogans, queries to generate curiosity. **Borders, etc.** The copy, especially in print media, should have borders so that it can be demarcated from its surroundings.

Price Quotations and Reply Coupons These can help in enhancing product value, especially when product differentiation is otherwise low.

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- 2. **Suggestive Value** It is about offering suggestion about the use and utility of the product so that even if the prospect can recall the advertisement under similar situation.
- 3. **Memorising Value** The advertising copy should be designed in such a manner that it sticks to the memory of prospect. Repetition of trademark or brand name serves the purpose to a great extent.
- Conviction Value An ideal advertisement copy should be able to make direct appeal to the reason. It should offer convincing reasons to buy the product by striking out its outstanding features.
- 5. **Emotional Value** Every individual has sentiments and attitudes towards different issues. The advertiser should try to take into account the emotions and sentiments of all the prospects to the extent possible.
- Education Value Sometimes it is desirable on the part of the advertiser to change the attitudes, habits and beliefs of the prospects. It may have to be informative such as telling use of new products and new uses of the same product.
- 7. **Instinctive Appeal Value** There are certain human instincts and motivations which should be taken care of by the retailers and other advertisers. These motivations are discussed as under:
 - Self-Preservation Instinct Instinct to preserve our health, wealth, beauty, family welfare etc. The
 medicines, woollens products address these issues.
 - Hoarding Instincts Banking, insurance and other saving products.
 - Instinct for self-display need to show oneself as likeable person. Beauty, fashion products.
 - Parental Instinct Love and affection for their children.
 - Something for Nothing Instinct Instinct to get something by not paying anything.

Exhibit 13.5

Advertisers should try to apply knowledge about these values, instincts while designing advertising message. The pride, beauty, health, economy, comfort, fear, parental affection, patriotism, achievement and emulation and imitation should be the made the central theme of advertising messages on the basis of these instincts.

Celebrity Endorsement in Advertisements Now, celebrity endorsement has become a trend in the advertisements. The rivals Tata Sky and Dish TV engaging cine celebrities Aamir Khan and Shah Rukh Khan respectively to promote their products, Preity Zinta endorsing BSNL products. ICICI hired services of Shah Rukh to convey a brand message. Big Bazaar has engaged famous cricketer MS Dhoni to enhance its appeal among masses.

Puma, a German brand selling shoes, apparel and accessories which has a significant presence in India, is best known for its football shoes and has sponsored many international football stars such as Pele, Johan Cruijff, Diego Maradona, Enzo Francescoli to name a few.

Innovative advertising spicing up a promotion Radio Mirchi's hot and spicy new method of spreading awareness about its breakfast channel **Hello Mumbai** used an altogether different vehicle. The much admired dabbawallahs, whose processes have been the subject of study for many a management students for their coming upto Six Sigma quality norms, and who made headlines when Prince Charles visited India, became 'direct advertisers' for the channel.

In an exercise spread over few days, a dry red chilli along with each of the more than two lakh lunch dabbas they take to hungry citizens of Mumbai every day. An accompanying sticker proclaimed the message: 'For more spice tune into Hello Mumbai with RJ Harsh and get to know what's hot in Mumbai.' The exercise certainly grabbed the attention of the intended audience, going by the response in the form of interest in the breakfast show and feedback from listeners. The creativity used as well as the right timing (lunchtime is one time when people generally take a break and so are receptive to advertisements) contributed to the success of the venture.

Reference: Streetdirectory.com accessed on April 25, 2009.

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Sales Promotion According to **American Marketing Association**, "In a specific sense, the sales promotion includes those sales activities that supplement both personal selling and advertising and coordinate them and make them effective, such as displays, shows, demonstrations and other non-recurrent selling efforts not in the ordinary routine." In comparison to other components of communication mix:

- it is mostly used in the consumer markets, though the manufacturers also use sales promotion efforts aimed at retailers through allowances on stock, performance and advertising.
- sales promotion is more action-oriented.
- it helps in stimulating the sales of the merchandise.
- it is a direct inducement to promote the sales of the product

Retailers are increasingly using sales promotion as a communication tool because of the following reasons:

- Increasing competition among retailers.
- It helps in increasing impulse sales.
- It helps in building up traffic in the store. It makes store a happening place so that new customers are also attracted towards it.
- Make customers brand loyal.
- It supplements the main advertising, personal selling.

Sales promotions are used extensively in the consumer markets while launching new products. These can also be used when the markets are mature and where product differentiation is low as the prices and sale promotion are the only ways to improve the sales.

Techniques Used in Sales Promotion Retailers always want to enhance the perceived value of merchandise before customers. The various methods adopted by retailers to promote the sales are discussed as under:

Price-Led Promotions and Rebates The various discounts schemes, rebates are designed and offered by the retailer to attract customers. In price-off packs, the product is sold at a reduced price from its normal selling price. This is in the form of a discount. These have also been discussed in detail in Chapter on Pricing.

Food retailers, sometimes, offer special discounts to their customers during intervening hours between breakfast and lunch and/or between lunch and dinner in order to make utilisation of the available infrastructure and human resources and generate revenues.

The non-food retailers also make announcements about the special offers in the stores themselves in order to increase impulse buying.

Many retailers go for event-based price discounts. For example, Ebony offering 58% discount on the occasion of 58th Republic Day and so on.

Assured Gifts and Premiums Nowadays, most of the consumer-durable sellers offer assured gifts such as bags, electric irons, holiday trips with purchase of LCDs, air conditioners, microwave ovens, washing machines etc. Even automobile dealers with support from manufacturer offer free gifts to the consumers. These can be complementary products also, such as car dealers offering free insurance with the vehicle.

Premiums Premiums are in the form of small gifts that a customer gets on purchasing a product. It is attached to the pack or put inside the pack.

In **Self-Liquidating Premiums**, a customer has to write to the supplier- retailer or manufacturer, for the gift by enclosing empty packets, bottle crowns etc. of the product. Basically, the customer has to provide some proof of the purchase.

Visual Merchandising and displays Store atmospherics, visual merchandising including window displays, store signages, smartly dressed salespeople play an important role in attracting the customers. They become more important in fashion merchandise, where retailers largely rely on impulse sales. Visual merchandising functions as 'silent salesperson' which can be attractive, informative and suggestive.

Samples Samples are miniature versions of actual products which are distributed among customers free of cost to win new customers. These are especially important in case of food products, consumer goods such as cosmetics.

Coupons There are special discounts for customers who redeem advertised coupons. Coupons are pasted on the product as a part package, sent out in newspapers, a cut-out coupon as a part of advertisement, printed on the back of receipt. These have been discussed in chapter on pricing.

Demonstrations The demonstrations have become a potent sales promotion tool. This is extensively used by sellers of beauty products, food-products and food making equipments such as electrical tandoors, sprout makers etc. In many restaurants, the food is prepared before customers.

Spencer's uses a Chef's Corner to familiarise their customers with exotic products

One of the India's major retailers, Spencer's, uses experiential retailing to push consumption in certain food and product categories. Spencer's has started many innovative concepts like 'Taste the World', Chef's Corner and Live Kitchen across its various food counters and stores.

Live Kitchen is an innovative strategy to push consumption in certain foreign and exotic grocery counters, and it reflects an interesting initiative by a retailer in partnership with manufacturers, in an instore promotion exercise. The idea is to give live demonstration of the preparation of certain cuisines- Thai, Chinese, French and Italian so that customers get idea about ingredients and their availability in the store. According to Spencer's, this retail activity has not only generated additional footfalls and incremental sales, but also helped them to position the chain in a differentiated manner. This is also very interactive way of engaging the customers in the relationship.

Reference: Go India, November 2008.

Exhibit 13.7

Contests and Sweepstakes Customers participate in the small competitions such as Tambola, Puzzle or some other games on the basis of their creative and analytical skills. Thus, retailers are able to draw the attraction of customers. But retailers should be careful in design and conduct of these games as losing customers may feel disheartened and stop patronising the store. Some disputes may also arise.

Titan's Fastrack eye gear, selling fashion accessories, conducted 'Coolest guy and Coolest girl' contest in a road show organised in Bangalore, where college students got opportunity to get photographed while trying out Fastrack's sunglasses.

In **consumer sweepstakes**, which are simpler in comparison to contests, shoppers are required to submit their names to be included in the draw for the prizes. The retailers may get simple form filled up by retailer to get basic information by the customers which can be used in future to promote sales.

Financing Options The retailers offer customers to make payment in instalments to purchase the merchandise. Some retailers explicitly mention the Equal Monthly Instalments (EMI) amount in their advertisement messages. This has become a norm in case of consumer durables and automobile. Retailers may themselves tie up with banks and financial institutions to offer financing of merchandise.

Loyalty Programmes These are frequent purchase incentives. It includes loyalty cards. The Lifestyle stores have membership program—Inner Circle. The loyalty programmes have been discussed in Chapter 16.

Future Group's Pantaloon Retail, launched a 23-day 'Shopping Festival' in December, 2008 spread over 1,000 stores which expected to generate a sales of 700 crores by luring shoppers with discounts and special offers.

"Thanks to Christmas, sales have been better in December compared to last month. We are also running some consumer promotions this month," said ITC's Lifestyle Retailing Business Vice President for Marketing, S Ray. LandMark, the Tata Group's book and music retail chain has also seen grow by 15% despite indifferent start to the season.

In general, falling inflation and interest rates are expected to result in sales growth of 10-15% during Christmas shopping season which begins in earnest in the first week of December and runs till the New Year, according to Retailer's Association of India.

Reference: The Economic Times, dated December 26, 2008.

Exhibit 13.8

Product Innovations The retailers also use **Product-based** innovations as a sales promotion technique. For example, Pizza Corner has launched a square-shaped Sicilian Pizza. This type of promotions may be difficult in case of manufacture's branded products, unless they support or themselves participate in these kinds of innovations.

Public Relations and Publicity Business is a part of society and its best interests are also served, if it is able to maintain and project its image in the society. The motive of any marketing communication process is to develop relationships with the prospective buyers and maintain relationships with the existing customers.

Public relations exercise aim to influence the way the organisation is perceived by its various stakeholders including its customers.

Publicity is basically about developing and maintaining relations with various social groups especially customers and other stakeholders, by encouraging interaction and dialogue. As the society and markets are themselves getting fragmented, publicity is becoming a challenging task. Some organisations may themselves handle this job and some organisations may hire the services of professionals to carry out this task.

Publicity entails any communication that fosters a favourable image of business organisation among society members. It is a non-personal form of promotion where messages are transmitted through mass media, the time or space provided by the media is not paid for and there is no identified commercial sponsor.

Few important dimensions and ways of Public Relations and Publicity are given as under:

Media Relations It consists of press releases, interviews, press kits, press conferences.

Event Sponsorships Contributing towards improvement in community life, participating in social and religious events and thus developing goodwill and community in society.

Lobbying It aims at influencing political leaders especially who are in power. Generally, this is done through trade associations.

Crisis Management How the retailers respond to crisis situations. During recent inflationary trends, many retailers did not pass on the increased input cost to their customers, many retailers going green in designing, merchandise, energy consumption decisions to project their environmental friendly image.

Industry Relations The relations with trade associations such as FICCI (Federation of Indian Chambers of Commerce and Industry). Though publicity is not paid for, the message that are printed or broadcast may have been inspired by the company concerned. Press conferences do not cost much money-invitation

cards, telephone calls, refreshment for the journalists, rentals of venue, information kits for the participants. Publicity messages are controlled by the editorial staff of media, which enjoy much creditability with public. They decide about the contents, space allocation and timing.

It is used to influence public opinion. Over a period of time, it has become a potent marketing tool also. Publicity is usually done by adopting measures such as news item usually in the form of press release or an article (sometimes also termed as **advertorials**) or statement given by top officials such as CEO of some retail company about expansion plans, introduction of new product range, foreign collaboration, financial performance of the company etc.

Types of Publicity As the media is becoming commercialised, even publicity is rarely without any cost attached to it.

Planned Publicity A retailer outlines its activities in advance, manages to have media reports and coverage on them. Community services, charity shows, launch of new products and services, sales promotion schemes are the activities which lead to media coverage.

As a large number of Pizza Corner clientele comprises youth, it supports organising college fests, school programmes such as educational trips and carnivals and presents the 'Excellence Award' to best performing students. These activities give us an opportunity to connect with youngsters and also create a bond with the brand at an early stage, as per top company officials.

Unplanned Publicity In this kind of publicity, media covers events, products and services in a routine manner, without any advance notice about the media coverage. TV and newspaper reporters may anonymously visit the stores and evaluate their performance for their coverage.

Complementary Publicity Sometimes media reports about a firm in a complimentary manner with regard to the excellence of its business practices. The following example can be taken in this context.

HDFC bank tied up with the *Business Today* to sponsor certain number of copies in many big cities. The cover of sponsered copies would be December 2003 issue of Business Today. The magazine rated HDFC as the best bank in the country. In certain advertorials also, HDFC has been termed as 'one stop financial supermarket'. This was likely to have a positive impact on bank's image.

Personal Selling Sales is the life blood of any organisation because it generates revenues for the business. The sales people are representatives of the retailer and are vital component of front-end operations. Everything else is expense. Every retailer has to outsell its rival and create satisfied customers for the merchandise.

Personal Selling is face to face communication and an art of presenting an offer that the prospect appreciates the need for it and that a mutually satisfactory sales follows. As two persons are involved in the communication process, it is dyadic (between two persons or group of persons) in nature. While interacting with the prospect, the salesperson in the store can elicit instant response, it is more effective than other forms of communication. The sales people are generally a good source of information for the prospect and can make suggestions.

It is more flexible also as the salesperson can mould according to the sales situation. The degree of control over the message can be made quite high with training.

Evolution of Personnel Selling Over a period of time, the personal selling has evolved from just an order provider to a proactive problem solver.

Provider Suppose the customer places the order at the counter and salesperson just locates the goods from stock and provides the merchandise.

Persuader The sales personnel tries to persuade just anyone to buy the available product. This can be mainly used in selling of food products.

Contd.

Prospector The sales people try to seek out prospective buyers for the available offering as can be case with cross selling. For a salesperson selling chocolates, the children can be the prospects and offer is made only to them.

Problem solver The problem solver sales people match available offering with customer-stated problems. Person selling the insurance product may first try to ascertain the requirements of the customers and then make the offering. The telecom companies offer different plans to the prospective subscribers. Plan for a person who is likely to make more STD calls can be different in comparison to some other subscriber who is to make more number of local calls.

Procreator They create unique tailormade offering for the customer problems. Sales representative of an Event Management organisation is supposed to customise solution after ascertaining requirements of the customers.

Exhibit 13.9

Steps in Effective Personal Selling in Retail Effecting sales is basically a mental act. The process of making sales is facilitated if it is methodical, facts and processes are analysed and followed. Some of the major steps in sales are denoted by AIDA—gaining Attention, generating Interest, arousing Interest, Actuating (Closing the Sales). The same steps are followed in the Retail sales also, but the explanation can be somewhat different.

- Gaining Attention It is basically about knowing the prospects and connecting with them. It can be done by greeting them in a pleasant manner. It is dwelling or concentrating on the idea which is the strongest at any time. Visual merchandising and sales promotions may actually trigger the process. First impression is the last impression. Establishing eye contact, smart dressing, smiling face, mannerism, grace and confidence are a few of the essential input features. The opening of dialogue and approach should be genuine and spontaneous, and not premeditated.
- Creating Interest Needs of the customer should be probed in a subtle manner. As sales proceeds, the salesperson should send the ball in the court of the prospect, and in any case it must be kept rolling. Presentation of the merchandise and 'touch and feel' experience are crucial in merchandise like apparel. The trial is very important in cosmetics. Miniature models, illustrations etc. are also important. The salesperson should:
 - dwell on unique points/Unique Selling Proposition (USP) of the product.
 - emphasise on usefulness of product, suggest alternative uses of the product.
 - compare the product with competitive lines, if required.

The salesperson should try to compare profitability of different products. The interest of the shopper is reflected in the queries and ought to be clarified in a satisfactory manner. Most of the times, price of the product is compared with the comparative products, the salesperson should offer clear rationals answer for this. The help can be taken from trade journals, information booklets in case of high involvement products.

Arousing Desire Salespersons should repeatedly dwell on those aspects of merchandise offer, which has created favourable disposition by the shopper earlier. Like advertisers, the salesperson has to work on presumption that the oftener a point is explained, the deeper it cuts into the mind of prospect. A salesperson should appeal to one or more of primary instincts or desires of human beings as suggested by Dugald Stewart such as:

- Desire for Knowledge
- Desire for Society
- Desire for Esteem
- Desire for Power
- Desire for Superiority

The salesperson must respond promptly to buying indicators which are usually in the form of positive statements by the prospective shopper. This is the most opportune time to ask for the sale. Otherwise there is a risk of losing the sale.

Closing the Sale Leading prospect from one stage of selling to another in a progressive manner, an adept salesperson should help the prospect in taking purchase decision. He or she should be careful not trying to draw conclusions for the customer in a hurried manner. The suggestion, if any, should be given in subtle manner. The close of sale should be marked with cordiality so that the customer realises that he as come to the right place and this may leave a scope for cross-selling the complimentary goods.

Personal Qualities required to become a successful Salesman: Broadly speaking, the personal qualities of a successful salesman can be discussed under four categories:

Physical Attributes:

- Personality Characteristics: Personal appearance, habits, way of dressing and addressing, posture, carriage, voice, demeanour.
- Sound Health: A retail personnel may have to pass through many physical inconveniences.
- Good Stamina to work

Mental Attributes: A salesman should have many qualities:

- Presence of Mind: To seize upon opportunity, handle customers' queries, remove their apprehensions
- **Observation and Judgement**: To judge the type of customer, its needs.
- Imagination: Especially to face unresponsive, silent and undecided customer.
- **Self-Confidence**: To persuade and win the customers.
- Initiative: An ability to work without constant supervision.
- Memory: Capacity to recognise customers, recollect their specific requirements and preferences

Social Attributes: It is the ability to get along with people. A retail sales person has to constantly interact with so many people. Different people need different needs and requirements and a sales person must be in a position to provide them.

- Convincing Conversationalist: The sales person should be in a position to provide his proposition pleasingly, logically and convincingly.
- Likely Disposition: A sweet voice, clear pronunciation, good vocabulary to ensure effective conversation. Politeness, courtesy, good manners, cheerfulness, refinement in taste and pleasant habits make a person likeable.
- Honesty and Sound Character: All the above characteristics should better be supported by honesty and good character.
- Co-operation and Helpfulness: Co-operation not only with customers but with fellow sales people and people
 at back end.
- Tactful: Knack of dealing with people, according to exigency of circumstances and winning favour by putting arguments that will appeal and prevail.

Vocational Attributes: The retail salesmanship is a skilled vocation demanding a special discipline of mind, body and heart. It demands qualities of leadership, imagination and constructive thinking. It is not everybody's cup of tea. The various vocational attributes required are as follows:

- Aptitude: Ability to carry out routine duties and responsibilities
- Ambition: Goal orientation, aim to progress in career
- Discipline: Alongwith energy, enthusiasm and desire
- Training: In effective sales methods, learning through experience of others.

Requisites of Success in Retail Salesmanship

. know the merchandise

- know what the store carries in stock
- know the location of SKUs
- know the facts about merchandise—material and technology used, special features, own store brands

2. understand and like people

- get the people's point of view
- serve people as the sales people themselves would liked to be served
- be courteous, considerate and attentive
- be friendly but not familiar
- treat customers as invited guests

3. have a wholesome attitude

- be loyal to the store
- be helpful
- should be watchful of one's health
- keep personal appearance—neat and attractive
- be enthusiastic about the job

4. use good selling methods

- meet prospects promptly and courteously
- present merchandise with respect and appreciation
- give honest and convincing facts about the merchandise
- help customers decide, answer objections and questions in a comprehensive manner
- · suggest merchandise to satisfy additional needs
- show appreciation for the customer's patronage

Exhibit 13.11

Comparison Among Various Tools of Promotional Mix The various tools of communication are used by the retailers to reach out the consumers. As discussed earlier, the retailers like other marketers use different tools in combination with each other to achieve communication objectives.

Parameters	Advertising	Sales Promotion	Public Relations and Publicity	Direct Marketing	Personal Selling
Main Tasks	Differentiation,	Persuading	Differentiation,	Persuading,	Persuading
	Informing		Informing	Reinforcing	
Size of audience	Generally High	High, local scale	High	Low	Personalised
Degree of Control	Medium	High	Low	High	Medium
Economy	High	Medium	Low	Medium	High
Credibility	Medium	Medium	High	Medium	Medium

Exhibit 13.12

Media Vehicles

Media is used as channel of communication. There are many media options available to the businesses including retailers. Media strategy involves determining the communication channels used to convey the desired message. Media has become very dynamic and people in media come with novel ideas, ways and means to approach the prospects. Novelty is really important for all types of media, whether print or electronic. The following key terms are essential in context of media:

- **1. Reach** It is number of households or persons covered under a specific schedule.
- **2. Frequency** The number of times a person or household exposed to the message during the specific time period.
- **3. Impact** The effectiveness of an exposure.

Broadly, the advertising media fall into one of the following categories:

Newspapers Newspapers are read regularly by a large number of literate people. Not only the advertisers need newspapers but the newspapers also need the support of advertisers to sustain their business.

Advantages The various advantages offered by newspapers are as follows:

- Wide circulation They reach large number of people
- Economy Advertising through newspapers is quite economical.
- Repetitive Value The newspapers offer opportunity to repeat messages at regular intervals, so these are important to build brands.
- **Timeliness and flexibility** Messages can be drafted, changed and inserted in newspapers very quickly.
- Choice of Market Generally, the newspapers have local readership, for example, *The Tribune* is very popular in areas of Punjab, Haryana and Chandigarh, *Hindustan Times* in Delhi and other parts of North India, *The Statesman* in Kolkata. This is especially true in case of vernacular local newspapers.

Disadvantages The newspapers are hurriedly and cursorily read by people so the advertisement messages are short and crisp and designed in such a manner that readers go through it in a quick fashion.

Magazines The magazines or periodicals are also a powerful media to communicate with the prospective buyers. These can be weeklies, fortnightlies and monthlies of General Nature (*The Week, India Today* and *Frontline*), specialised magazines covering topics such as fashion, home furnishings, cookery etc. and trade and professional journals. Charagdin, Raymond's make extensive use of magazines to advertise their products.

Advantages

- **Quality Printing** The visual effects can be given in periodicals with the improvement in printing technology.
- **Detailed Information** The detailed information can be given in magazines and journals.
- Higher degree of Market selectivity in comparison to most of media.
- Cost Effectiveness Cost is moderate.
- Longer Life Copy of magazine is generally retained for a longer period in comparison to other print media options.

Disadvantages

- **Restricted Circulation** The magazines have restricted circulation.
- Less Flexibility The magazines have less flexibility in terms of changing the message content.

Yellow Pages It has become a popular media option among retailers during recent times especially to reach out to the prospective customers in the local areas. It is generally given in the specialised directories, such as telephone directory of BSNL being the most popular one. It can be in the form of Audiotex (talking yellow pages) or the Internet directories. The yellow pages can also offer coupons and inserts also to the prospects.

Advantages The yellow pages offer the following advantages:

- 1. Easy availability They are easily available to the prospects.
- **2. Economical** These are economical for retailers as well as prospective customers. These may be available free of cost to the prospects. Generally, space charges are not very high for the retailers. Moreover, these can be retained for a long time by the customer.
- **3. Action-oriented** These are generally not perceived as an intrusion by the prospects and thus are quite purposeful and action-oriented.

Disadvantages

- 1. Localised Approach Mostly, yellow pages have only a local reach.
- **2.** Less Flexibility As yellow pages are published once in a year, they can become outdated. There is very less flexibility in changing the messages. The lead time between the preparation of message and actual printing and circulation is very long.

Telemarketing Telemarketing is basically making telephonic calls to the prospects. It is especially used in case of financial products such as banking and insurance in India. The leads are generated in the form of queries in response to advertisements, referrals, third parties etc.

Advantages The telemarketing has the following advantages:

- 1. It is quite interactive and flexible.
- 2. It is quite spontaneous, responsive and opportunity to overcome objections.
- 3. This also helps in market research. Its effectiveness can be measured and verified.

Call centre is also an important dimension of telemarketing. While the prime function of call centres is to handle consumer complaints, they provide marketing and selling opportunities in the process. Inbound calls are generally for handling customer complaints and outbound are for reaching out to the prospective buyers with offerings from the seller. Important aspects are call rates, contacts reached and quality of responses- positive and negative.

Television The television as a media of advertisement is still not very popular for retailers as newspapers, probably due to high cost. But with the rise of big retail chains and formats, the scenario is changing. Proliferation of the satellite channels has made it very popular among audiences.

Sponsoring programmes on TV channels is an emerging trend. The examples of sponsorship are 'Great Indian Laughter Channel' by Reliance Mobile on Star One and 'Star Voice of India' by Amul on Star Plus. Madura Garments brand, SF has sponsored shows such as MTV *Roadies* and Channel V's *Fear Factor* in synchronisation with its 'Be game' promotion. Archies was one of the first advertisers on MTV and Channel V.

Advantages

- 1. This allows retailers to add visual and sound dimensions to the advertising messages.
- 2. Cost is relatively low per target reached.
- 3. The digitalisation and interactivity have made it more attractive as a medium of advertisement.

Disadvantages

- 1. The long messages may not be put on television advertisements
- 2. Costly, especially for small businesses.

In Cable TVs A number of channels are offered to the subscribers as a part of overall packages. Most of the channels are satellite channels such as Sony, Star, Zee TV to name a few. Some channels generally showing movies, local news or programmes may be operated by the cable operator itself. It is on these channels that local retailers advertise their stores and products offerings. Now Direct To Home service providers such as Sky TV, Dish TV are giving tough fight to cable operators.

Radio The radio as a commercial vehicle for advertisement gained currency during recent times with the popularity of FM radio such Big FM, Radio Mirchi, World Space. This media is very effective as Radio Jockeys make personal appeals to the prospects. Vividh Bharti has been very popular in India. It is especially popular among people travelling long distances and timings in their own cars and drivers. Many regional retailers such as Amartex in North India make extensive use of radio advertisements for their promotional campaigns.

Advantages

- 1. Wide reach, but can use segmentation. The audience selectivity is very high in comparison to other media
- 2. Relatively economical as the radio commercials are less expensive.
- 3. It has short lead time. The radio commercials take less time to be produced in comparison to other media. It can be scheduled at a very short notice period.
- 4 It is very flexible as the advertisers can change their messages at the last moment.

Disadvantages

- 1 It has no visual impact. There is need for repetition of message.
- 2. As the audience of a local radio station is usually small, the impact of advertisement is limited and the retailer has to rely on a large number of radio stations to communicate with the prospective buyers.
- 3. The fact that radio is used mostly in cars while driving coupled with the increasing popularity of mobile phones, the advertising messages may get little attention of the listener.

Thus, we can see that there are different media options, each having its own set of pros and cons. They are used in combination and they supplement each other.

Digital Media The digital media such as digital televisions, internet, email, viral marketing, blogs, social networking sites provide wonderful opportunities to the sellers including retailers to promote and sell their products.

In continuation with the Integrated Marketing Communication, the various media channels are generally used simultaneously by the sellers. For example, for a major advertising campaign on Friendship Day, Archies engaged 60 newspapers across multiple editions, radio channels in four cities and three TV channels to reach out to the youth.

■●■ Planning and Implementation of Promotional Mix

Once we are through with the main aspects of promotional mix, it is desirable to have some idea about the process of using promotional mix sort of strategy as is described as under:

Setting Promotional Mix Objectives The main objective of promotional mix is the specific communication task to be achieved with a specific target audience during a specified period of time. A few of the promotional mix objectives are given as under:

- To inform customers about a new store or product
- To persuade customers to switch store loyalty

Media Parameters	Newspapers	Magazines	Direct Mail	Television	Radio	Cinema	Outdoor Advertising
Circulation/Audience	Widest	Limited	Restricted	Wide	Good	Restricted	Local
Selectivity	Good	High	Excellent	High	Restricted	Restricted	Local
Information Presentation	Modest	Modest	High	Modest	Low is also high	Higher but cost	Modest
Longetivity of Message	Very Limited	Longer	Longer	Moderate	Limited	Very short	Long
Repetitive Value	Very High	High	Depends upon frequency of mail	Short	Quicker repetition possible	Audience changes in every show	High
Effectiveness	Very Effective	Very Effective	Most Effective	High	Less effective because of shorter life	Effective due to audio-visual value	High Memorising Value
Cost	Moderate cost in terms of numbers contacted	Higher Cost	Depends upon mailing list	Modest	Costlier	Moderate cost on the whole	Economical on the whole but higher per contact cost
Suitability of Product Category	Suitable for goods which	Specific Products	Suitable for niche market	FMCGs	Daily use wide demand	Local consumption goods	Suitable for brand
	need wide		products markets)	image products

Exhibit 13.13

- To remind buyers where to find a product
- To develop store as a brand and so on

To get more idea about the objectives, the students can refer to the earlier part of the chapter.

Setting the Promotional Budget The role of advertising is to generate demand for a product offering. The amount spent on promotional mix should be corresponding to the potential sales impact of the promotional campaign. This, in turn, will reflect the characteristics of the product being promoted. In general, new store or merchandise needs more budgetary support so as to create awareness and motivate people to visit the store. A store or product may need more promotion to help set it apart from rival stores or products- to make it more differentiated.

Deciding about the Key Promotional Messages The clarity of the promotional message is often more important than the amount spent. The message must be carefully targeted to impact the target customer audience. To put it simply, a successful message should have the following characteristics:

- (a) Meaningful The message should be relevant to the current or potential needs of the customers.
- (b) Distinctive It should capture the attention of the prospective customers.
- (c) Believable It should be perceived as authentic by the prospective buyers.

Selecting Promotional Tools and Media Planning There are a variety of options to choose from. A promotional mix includes promotional tools as well as selection of media channels. The advertiser may use one or more of the media alternatives. The main factors in choosing the right media are—reach, frequency, media impact.

For example, a retailer selling kid's products want to promote the store. Then what should be the promotional tool-advertisement or sales promotion or both? If advertisement, what media should be used—a newspaper or a children magazine or a local cable TV channel? If it is newspaper, then, which section of newspaper is to be selected? and so on. A business may use a variety of tools and media simultaneously, their selection keeping in view the message to be delivered and the target audience, is generally termed as promotional mix.

Implementation It involves the implementation of decisions relating to the promotional mix. The coordination of all activities, making teams, periodic review, support of the frontline sales force are the main factors for the successful implementation. Nowadays, many activities are outsourced to professional agencies. Now there are many agencies such as Trikaya Grey, Hindustan Thompson, Lintas India, Mudra Communications which handle all kinds of activities relating to advertisements.

The timing of campaign is equally important. Some products are particularly suited to seasonal campaigns such as Diwali in India, whereas for consumer goods a regular promotional campaign may be required throughout the year.

Evaluation of the Results of the Promotional Mix The evaluation of a promotional effort should focus on two key areas:

Communication Effects Is the intended message being communicated effectively to the target audience? Sales Effects Has the promotional campaign generated the desired sales growth, though it is not always an easy task?

The process described above is only in a generalised form for retailers who have to start from scratch. With experience and practice, the number of steps is automatically curtailed.

[Summary]———

- > Promotional Mix is the comprehensive approach to reach out to the target audience (prospective customers) with desired message by engaging them with the help of promotional tools with an aim to elicit desired response. The specific objectives are differentiation of the store, information about the product, reinforcement, persuasion to buy and ultimately to build brands. The three strategies are **pull** (to attract customers towards store to buy the product), **push** (to press on product through distribution channels) and **profile** (to build up relations with various stakeholders including customers).
- > The messages, tools and media are the three elements of promotional mix. The messages are information-based and emotion-based. The main communication tools are advertising, sales promotion, publicity and personal selling.
- The advertising as a promotional tool is paid, non-personal and with identified sponsor. It aims at an increase in demand and resultant sales, higher turnover and building brands for the retailers. For customers, its increasing facility of purchasing, availability of better quality product, education of consumers and curtailing number of intermediaries. The audience fragmentation, convergence of channels and increased interactivity and customisation are the emerging trends in the field of advertisements. **In-store** (such as cross promos, shop in shop), **outdoor** (such as billboards, transit ads and street furniture) and **online** advertisements (such as banner ads, interstitials, pop-ups and unders, search engines) are the main types of advertisements.
- ➤ The sales promotions are mostly used in the consumer markets and are action oriented. The rebates, assured gifts and premiums, visual merchandising and displays, samples, contests, coupons, demonstrations are the main techniques used in sales promotion.
- ➤ **Publicity** though theoretically is unpaid but still need efforts from the retailer. The publicity can be planned, unplanned or complementary. It hinges on media relations, sponsorships of some social event, lobbying and industrial relations.
- ➤ Personal selling is basically one to one interaction with the prospective buyer. It is basically about AIDA (Getting attention, Generating interest, Arousing desire and actuating Sales). It supplements the advertisement and sales promotion efforts at the store level. As the salesperson is responsible of achieving sales for the retailer, it should have certain physical, mental, social and vocational attributes.
- ➤ Media is the way to convey message to the prospective customer. It can be print media such as newspapers, magazines, yellow pages or electronic media such as TVs, internet. Every media has its own advantages and disadvantages.

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—[Revision Exercises]

■ ■ Very Short Answer Questions

- 1. What do you mean by Promotional Mix?
- 2. What is planned publicity?
- 3. What are billboards?
- 4. What is AIDA?
- 5. What is Interactive Advertisement?
- 6. What are banner ads and interstitials?
- 7. What are advertorials?
- 8. What the terms audience and media mean?

Short Answer Questions

- 9. What are the elements of Promotional Mix?
- 10. Differentiate between push strategy and pull strategy in context of promotional mix.
- 11. What are the benefits of advertising?
- 12. What is the importance of indoor advertisement in context of retail business?
- 13. What is online marketing? What are its advantages?
- 14. What is Telemarketing? What are its advantages?
- 15. Discuss and compare Television and Newspapers as media options before the retailer.
- 16. What are the requisites of becoming a successful salesperson?

Long Answer Questions

- 17. Discuss Personal selling as a process.
- 18. Discuss the main stages involved in the process of planning and implementing promotional mix.
- 19. Discuss sales promotion as a tool of promotional mix.
- 20. What are the desirable characteristics of a message copy?
- 21. Discuss the significance of publicity in context of modern retailing.
- 22. Discuss the types of messages in context of promotion of the retail store or merchandise.

[Project Assignment]

Conduct a survey of conventional retailer and organised retailer in your surrounding area. Enlist the main differences between the Promotional Mixes of the two types of retailers?

CHAPTER

14

Key Store Operations and Inventory Management



After studying this chapter you should be able to understand

- ✓ understand the concepts of facility management, energy management, and people management
- ✓ understand the Point of Sales System
- ✓ understand the concept of merchandise shrinkage
- ✓ explain the inventory management in retail

Introduction

In Chapter five, we discussed about the strategies which may be adopted by retailer to achieve its objectives in a larger competitive environment over a period of time. The successful implementation of store operations is crucial to achieve the long term objectives. The exact nature of store operations depends upon the type of retail format. The retail operations of food and grocery retailer are different from fashion retailer and that of departmental store are different from those of discount retailer. In case of retailers selling general merchandise items such as food and grocery, the efficient replenishment of merchandise is hallmark of operations.

Working in a retail store means performing a very challenging task, of catering to the needs of variety of customers and thousands of SKUs. This is also the case with the stores which are extremely specialised, selling only one type of items such as shoes, watches, apparels etc. or general merchandise.

The routine challenges which are usually faced by a retailer during operations are given as under:

- Increasing operational costs
- End to end integration of different operational processes
- Lack of real time awareness of stock resulting in frequent 'out of stock' situations
- Difficulty in implementation of new technologies
- Inadequacy of human skills

Keeping above in view, every retailer, especially big store chains, would like to have a **Operational Blue Print** or **Standard Operating Procedures** (SOPs) to carry out retail operations so the customers can get the consistency in merchandise and services. This can also be termed as Standardisation of Retail Operations across store chains. Now the store chains tend to bring some flexibility in the delivery of goods and services so that retailing has an element of localisation.

Store operations include managing back-end as well as front-end operations. Back-end operations include procurement of merchandise, supply chain management, inventory management, etc. Apart from personal selling, sales promotions and marketing operations which have been discussed in the chapter of Promotional Mix, the focus of this chapter is to make students aware of many routine retail store operations. Routine retail operations have been discussed as under:

■●■ Facility Management and Maintenance

Facilities management including maintenance and cleanliness of the premises, is crucial to maintain and improve the store ambiance and atmospherics. The housekeeping is another term which is also used to denote the facility management. As shopping is increasingly becoming experience oriented, this has become vital for the success of retail business.

It is usually carried out at odd hours, during early morning hours as the case mostly with small retailers or even during night hours in case of big stores and restaurants. This is necessary as the stores want to focus on selling activities during business hours. Maintenance of the store usually entails the following activities:

- Regular washing and shining the floors
- Cleaning and shampooing of carpets & furnishings
- Washing and cleaning windows (especially glasses) and walls
- Dusting and cleaning of furniture and fixtures
- Cleaning up of facilities such as wash rooms
- Emptying trash cans

These are just few examples. The actual number of activities can be very large. Maintenance also includes upkeep of parking facilities and its immediate surroundings. Minor constructions and repairs required at times, even if with the help of people from outside, are also part of it.

■●■ Merchandise Displays

This is usually done by the visual merchandisers or sales people working in the front-end. After the merchandise has been bought, it is brought to the store and some parts of the merchandise are put on display. These are important for marketing of the stores.

Retail is about detail of presenting merchandise to the shoppers. Merchandiser usually entails the creating 'looks' of the store which are crucial to attract the shoppers. Merchandisers usually have a say in deciding about the layout of the store. Merchandisers and buyers often work together as a team and in some cases, mid- and small-sized retailers do not distinguish between the duties of the two and have a single person completing all tasks.

■●■ Energy Management

The modern retail stores makes intensive use of energy so as to create better ambiance and temperature conditions with the help of air-conditioned systems. Now, when our society is facing regular power cuts and cost of power is also increasing, the energy management becomes very important for the retailer. The retailers can take following measures towards better energy management:

- Maximum use of natural light
- Switching of air conditioned systems during off-peak hours
- Use of energy efficient CFL bulbs and ISI or BEE marked electrical equipment.
- Repairing of faulty wiring which results in more use of power and can also cause fire.

Now with energy problems and awareness among public about concepts like global warming, retailers should try to project cleaner and greener image by adopting measures which save energy and these are specifically highlighted in the store with the help of signages.

As a matter of prudence, the electrical wiring of the store should be done alongwith the construction, store layout, furniture, fixture fitting in different phases so as to avoid the problems at later stage.

■●■ Security of the Retail Premises for Loss 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 the difference between the values of recorded inventory and the actual inventory. There are two types of shrinkage:

- Internal Shrinkage: It is mainly due to theft by employees of the retailer.
- External Shrinkage: It is due to fraud or theft by the customers and fraud by the vendors of the retail organisation

Now, when the retailer's margins are very low, prevention of any loss due to shrinkage can help them a lot. There are certain aspects relating to shrinkage linked with supply chain:

- 1. Production waste: The fresh fruit and vegetable items actually lose some weight by the time they reach at the retailer's end
- 2. Loss during transportation and invoice matching errors
- 3. Wrong delivery of merchandise items, swapping of merchandise items at the supplier's end items which are meant for different retailers. The supplier may compensate at the later stage

- 4. Frauds
- 5. Supplier returns
- 6. Customer returns—if the items returned are not in the original shape, or become obsolete or out of fashion by the time they are returned by the customers.

According to Global Retail Barometer Threat, merchandise shrink is equivalent to 1.34% of total retail sales, which is a serious threat to the bottom line of retailers. The theft is particularly high in case of new product lines such as expensive FMCG items (razor blades, cosmetics, perfumes, high value food items, etc), electronic items (such as DVDs, video games), fashion items (leather goods, handbags, other fashion accessories), mobile phones, SD cards, pendrives, watches, etc.

India is one of the countries where merchandise shrinkage is highest and estimated to be between 2.5-3 percent which translates to be more than Rs 10,000 crores. So one can easily see that how it is eating into the profits of retail industry. Thus, for an individual retailer, the retail loss prevention is an important function. However, retailers may not be in a position to take any visible step as they do not want to be seen as distrusting or offending the customers.

At store level, the loss prevention is tried by working closely with both retail security officers and retail buyers. This also means working closely with retail clerks, cashiers and retail merchandisers. However, the loss prevention in retail store is not as simple as making sure kids do not break glass items. It is much more than that.

The various measures adopted by retailers are mentioned as under:

- 1. Installing Electronic Article Surveillance (EAS) Systems.
- 2. Using safe keepers, locked boxes and product alarms, electromagnetic displacements pegs.
- 3. Working closely with vendors (with help of RFIDs).

Loss Prevention actually starts with talking to employees frequently or training regularly about this aspect. At least realty check is important, even if we are missing few or many shoplifters. This will help in keeping a track of inventory.

■●■ Point of Sales, Checkout System and Cash Management

The retail trade by its nature is transaction oriented as the number of transactions whether in the form of cash or credit are very high. As the customers do not have much time at their disposal now, the efficient Point of Sales is crucial as it generates sales and brings in money for the business which is crucial for liquidity and profitability of retail business. Every store needs some mechanism or machine to process sale; it is the cash register or its technological solution in the form of electronic cash management system or an elaborate computerised point of sale (POS) system. This is especially true in case of fast food retailers where the transactions are of small size; but number of transactions is quite high. Conventionally, many of the functions performed by the POS systems were being performed by the cash register.

While a cash register tells retailer about the total sales, the **Fully Integrated Retail POS System** yields much more information such as itemised sales performance and profit analysis on daily basis, inventory monitoring and tallying the sales figures with the cash. It also provides real-time data exchange and integration even with supply chain partners with the help of internet and networking; thus, making the whole system more efficient. Cash drawer, bar code scanner and programmable keyboard can also be integrated to the system as per requirements of retail business. It can be integrated with accounting, purchasing and inventory modules.

Components of a Point of Sales System The understanding of parts of the POS helps in the right choice of POS system.

Hardware consists of the following components:

- POS computer system
- Cash drawer
- Scanner
- Signature capture devices
- Receipt printer

Retailers can also make use of touch screens, programmable keyboards, scanners, or other handheld devices to enter data into a POS system.

Now, with increased use of credit cards for the purpose of making payments, it has become necessary for retailers to install machines to collect payment. This machine facilitates the transaction by transferring data from the banker or credit card service provider. The credit card companies charge a commission on the amount of transaction, usually from the retailer.

POS Software Point of Sale software processes the basic customer transactions in the store. Basically, it includes merchandise item descriptions (mostly in terms of SKUs, batch, time of purchase, etc.), prices, taxes and many other cash register functions. The advanced software versions include returns, coupons, price revisions, merchandise inventory tracking.

■●■ People Management

Various activities linked with the people management are as follows:

- Making the weekly (or monthly) work schedules for the store employees
- Filing with paperwork relating sales done by staff so as to calculate commissions, etc.
- Rescheduling when employees are ill
- Motivating team members
- Finding solutions to customer problems through coordination among employees
- Brainstorming, generating new sales ideas
- Hiring, training and evaluating employees

When working out the schedule for a particular period, following information is important:

- Monthly calendar
- Past store employee schedules
- Details about employees seeking some time off
- Peak season, normal period and lean period sales reports
- Scheduling software in case of big retailers who are making use of it.

Human Resource department will also ensure that employees get salary and avail benefits such as commission and incentives on time, schedules are properly maintained and so on. One of the most important tasks of the retail manager is scheduling employees. Creating the work schedule requires meeting the needs of the store, while satisfying the needs of the store workers, simultaneously. Difficulty in scheduling employees will vary with the size of the store, the average sales volume and the total number of employees. These are the factors that influence the store's payroll budget and the coverage needed.

A retailer can start by calculating the store's payroll amount. Then any special events, peak business seasons and business priorities that require extra staffing are taken into account. Once the retailer is clear about what needs to be done, how much manpower is required and the availability of financial resources, he can give final shape to the schedule.

It is important that retailers should look out for employees who are dedicated, arriving on time early, not very keen for scheduled breaks or staying over their assigned times. Just a few extra minutes, here and there, can actually distort the budget estimates. But, here is a word of caution, the retailer should not compromise on customer services to stay within budgetary limits.

Store managers should try to make more utilisation of salaried employees in comparison to hourly workers if there is apprehension of exceeding the labour budgetary limits. Weekly schedules should be posted around the same time each week and in advance to the extent possible.

■●■ Implementing CRM and Providing Customer Services

Retailer has to maintain and implement CRM and loyalty program as an integral part of store operations. As retailing is a service-oriented business, the major part of retailer's efforts is devoted to provide services to the customers. The CRM and customer services have been discussed in detail in Chapter 16.

Inventory Management

Merchandise inventory is the most visible aspect of retail business. For a manufacturer, inventory can be in the form of raw material, semi-finished goods and finished goods, but for a retailer, in the ensuing discussion, it is being assumed that it is mostly in the form of finished goods.

With the arrival of big box retail formats, when the success of retailer is linked to scale, many retailers are adopting inventory management techniques, which are being used by the manufacturers such as Just in Time (JIT). With the adoption of these techniques, the retailers are trying to link supply with real time demand. The students can get better idea about this aspect in the chapter of Category Management. Computerisation and networking of all purchase and inventory activities have facilitated the process of inventory tracking.

Retailers in collaboration with vendors are using customised softwares to track their value chain right from the stage of placing the order to the point of sales. Apart from tracking of inventory, it also helps in generating itemised ageing schedules or turnover of different items and brands in the inventory of a retail store. Here, it is important to differentiate between two the terms—monitoring and control. Whereas monitoring is about tracking inventory across the value chain, the inventory control deals with optimisation of inventory cost. Monitoring is a prerequisite of inventory control.

For a person responsible for inventory management in a retail store, whether supermarkets, departmental stores or specialty product, it is necessary to understand the essentials of inventory management so as to maintain a healthy supply of merchandise stock while maintaining budgetary or space limitations. When managing your inventory levels, retailer must have width, depth, consistency and quantity in order to satisfy the customer needs.

Motives for Holding Inventory There can be three specific motives for holding inventory for any retailer.

Transactionary Motive To carry out transactions of business in an uninterrupted manner.

Precautionary Motive To tide over supply side constraints, especially in case of imported products.

Speculative Motive The food and grocery retailer can stock certain dry vegetable items such as onions and potatoes whose prices are likely to increase during off season.

Important Considerations in Inventory Management in Retail Business The following are the important considerations for a manager:

Concern for Optimum utilisation of Space As has been discussed earlier in Chapter two, real estate cost in retail is very high in India. Storage or warehousing space have great impact on the decision that the retailer makes regarding amount of products and supplies to be kept on hand at any given time. If retailer have extra space in store or warehouse, it should be analysed, what products are the "best sellers", or the

fastest moving items, so as to wisely fill that space with these items. At the same time the overstocking of expensive or slow-moving items is to be avoided so that investment is not unnecessarily blocked in those items. Retailer must implement the most efficient inventory stocking programme for different department or product categories. He should also learn about properly inventory tracking mechanisms and marking it for easy reconciliation with inventory checks.

The managers should learn to find the right balance between supply and demand so that the ratailer doesn't have any inventory sitting in the warehouse which is not moving for long periods of time.

Movement and Rotation of Merchandise items Retailer as a prudent businessman will always look at how well the inventory moves prior to ordering. This is essential in inventory management in order to keep items from getting old and obsolete while being stored. This is especially true in case of perishables. In fact, in these instances, retailer should never store large amounts, simply make sure that the supply chain can be replenished regularly and frequently as per demands of the customer, and check stock daily for anything that is no longer usable.

Rotation of merchandise items is very crucial for retailer. Retailer should learn to rotate merchandise items so as to make sure that the inventory, which has been in stock for the longest period, is sold first. It should be First in First out (FIFO). Never leave the older products in the back and move new products first. It can lead to a problem at a later stage when there comes the need to write off a lot of material, causing wastage of money. But, it does not mean that fashion items should wait till disposal of old merchandise items all the time. The clear policy should be devised in this regard.

Cost Efficiency Finally, the retailer should be aware of the cost details of logistics and receipts as well as the net worth of the items in the inventory. The documentation of all incoming and outgoing merchandise stock is necessary so that accurate information can be made available for an inventory audit.

Many other routine issues that a retailer face, are as follows:

- How to handle merchandise in coordination with different vendors as a retailer has to deal with a variety of products;
- How much quantity of inventory to be on the sales floor and how much in a warehouse or storeroom;
- How to move inventory from non-selling to selling areas of a store and how often;
- Identifying functions such as receiving, unpacking and replenishment which can be done during non-store hours; and
- How to elicit the supplier support in the storing of merchandise or setting up displays.

Important Tips for a Retailer

- Managing a wide assortment of items, retailers should not try to spread out too thinly, even in case
 of certain rapidly moving merchandise items. This may lead to few initial gains but in the long run
 the retailer can lose its focus and core competence. Some items look attractive; become a passion
 & fashion overnight, but ultimately prove as a "fad". So retailers should tread cautiously.
- They should try to keep stock low, yet increase inventory turnover without compromising the service level or performance.
- The retailer must always try to negotiate lower prices by making volume purchases, but it should not result in piling up of merchandise items which are slow moving, obsolete or likely to become obsolete.
- Having an adequate inventory on hand is good but should never get caught with slow moving items.

Deciding about Optimal Level of Inventory As a major part of retailer's investment is tied up in the merchandise inventory, it becomes important to optimise the cost of inventory. For that deciding about optimum level of inventory is crucial. Avoiding extreme levels of inventory—too low or too high is important. If level is too high, it can result in increased investment, but if it is too low, it can result in unavailability of stock, thus, resulting in loss of sales. The idea about the cost components will help in optimising the inventory levels.

Carrying Cost For a retailer, carrying cost is related to the space cost—in the form of store or warehouse rental, store staff salary, insurance, inspection or supervision of merchandise, shrinkage, damage or obsolescence.

It also includes the financial cost tied up in the inventory in the form of interest or opportunity cost as the same funds could have been invested somewhere else to give some return. Total carrying cost increases as the quantity of merchandise ordered increases.

Ordering Cost It includes the whole process involved in the process of procurement such as exploring different sources of merchandise, tendering, comparing alternatives and placing the orders. It is calculated as "per order cost or cost per order". The ordering cost decreases with the increase in the quantity which is being ordered and vice versa.

Stock-out Cost This is also termed as backorder cost. Stock out cost is the cost in the form of loss of profit due to lost sales or loss of goodwill in case of inadequate inventory. It depends upon whether the customer switches over to a competitor retailer. In that case, the retailer can lose future sales and profits, also.

Here an attempt has been made to address two basic questions through Economic Order Quantity (EOQ) and Reorder Point.

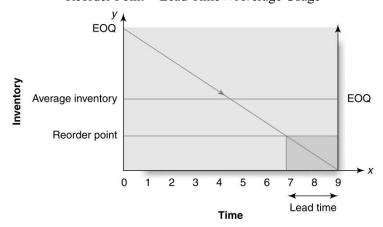
1. Economic Order Quantity—How much Quantity should be Ordered EOQ involves a trade-off between carrying cost and ordering cost. A larger quantity increases the carrying cost but will reduce the number of orders which are to be placed thus, decreasing the number of orders (and thus, ordering cost). The vice-versa is also true. At EOQ, the ordering and carrying cost are equal and total inventory cost is the lowest. This is the point of trade-off between carrying cost and ordering cost.

Economic Order Quantity (in units) =
$$\sqrt{\frac{A \times O}{C}}$$

where A is the annual requirement in terms of units, O is the ordering Cost per Order and C is the carrying cost per unit per period.

2. Reorder Point—*When to Order* EOQ deals with the question how much quantity to be ordered in a single order so that the total inventory related cost is minimum. The reorder point refers to the stage when the order for merchandise should be placed. It depends upon the lead time, average usage and the EOQ. Under the conditions of certainty, we assume that reorder point is simply that level of inventory which adequately meets the retailer's requirement to meet the customer demands over the lead time.





Here, it is important to mention that lead time is the time gap between the order placed and actual delivery. The average use is the selling of the stock (in number of units) by the retailer over the specific period of time.

If some safety or buffer stock is to be maintained by the retailer to meet any exigencies in the supplies of merchandise; then the formula for the reorder point may undergo some changes:

Reorder Point = Lead Time × Average Use + Safety Stock

Apart from the above discussion, which makes use of the above mathematical formulations, the retailer should be careful about certain aspects. For a retailer, the merchandise plan is very important. To be brief, the following questions should be addressed for effective inventory management:

- When the orders should be placed?
- When first delivery and subsequent deliveries are likely to be received in the store?
- When the inventory should be at its peak?
- When the retailers should stop placing the reorders?
- When the merchandise item should no longer be in the stock?

A well thought merchandise plan helps retailers to reap benefits of price, availability and profitability that ensure success in the long run.

Usually, the retailer offers new items for sale much before the actual closing date of the season so that he can prepare the store for the new merchandise items for the coming season. Suppose, the retailer may assume the closing date of winter season is 15th of January so that they can prepare for the ensuing spring summer season. So the purchase plan should be given final shape well in advance so that the retailer can reap maximum benefit of the sales of different seasons. Retailer should have fair idea how long the ordered inventory will last according to the season, especially in case of fashion or seasonal items.

Inventory Control in Retailing The retailer would always like to dispose of unwanted items and have a realistic idea about the stock position on continuous basis.

- 1. Visual Control This is, especially used in case of small retailers. They examine the inventory visually to ensure that the desired items are available.
- 2. *Tickler Control* This method allows a retailer to physically count the small portion of inventory each day. Thus, different product categories or sections of the retail store are counted each day. This becomes a periodic exercise.
- 3. Stub Control This method is specifically used by retailers. Retailer retains a portion of price ticket attached or kept with each sold unit of product. He can use the stub to keep to record the items which have been sold.
- 4. ABC Analysis An ABC analysis identifies the performance of individual SKUs in assortment plan. According to the different parameters such as sales, profitability, traffic building etc; it ranks merchandise items into the following categories:

A Category Should never be out of stock.

B Category Can be allowed to be out of stock occasionally.

C Category May be deleted from the stock selection.

Nowadays the vendors also help in the process of inventory management, which is termed as Vendor Managed Inventory (VMI). It has been discussed in more detail in Chapter 15 on Supply Chain Management.

Apart from the above methods, now the technology such as RFID is available to keep a watch on the movement of inventory. It has been discussed in greater detail in Chapter 15. FIFO method mentioned above is an important guideline to retailers to ensure better inventory management.

Few more tips for Retailers:

At the Time for Receiving:

- Verification of quantity—Receiving clerk should ensure that they get the same number of packets as mentioned in the delivery receipt
- Each pack should be examined for any visible damage
- In case of any visible damage, it should be noted down on delivery receipt
- After delivery, the all the packs should be opened without much delay and be inspected for merchandise damage.

In case of Damaged Merchandise Items:

- In case of damage, all damaged items should be held at the place where they were received.
- It should be immediately brought to the notice of carrier of merchandise and inspection should be requested.
- Confirmation of damage should be done with supplier also. The damaged items should not be moved from receiving area before inspection.
- The damaged material should not be disposed off without the permission of carrier or supplier.
- Normally damaged items should not be returned without written approval of the carrier/supplier.

Exhibit 14.2

In a nutshell, we can say that the efficiency in operational management including inventory management is highly desirable in context of retail business. If a retailer is not able to maintain its operations in a desired manner, it will reflect in poor upkeep of premises and will send a wrong message to the customer that retailer is not taking any interest in the business. The wrong image thus created will bring the sales and profitability down.



- ➤ Store manager has to face many challenges while managing the operations of the retail store. Facility management is for the routine upkeep of the store; and keep the ambiance of the store intact.
- ➤ Merchandise displays alongwith the facilities management help in the attracting the customers towards the store. The energy management helps in keeping the power bills under check and at the same time enhance the Environment friendly image of the store.
- Merchandise shrinkage has become perennial problem for the retailer. It can internal (theft by employees) or external (theft by the customers). To prevent its menace, on the one hand, training of the employees is important while taking the help of technology such as Electronic Surveillance.
- ➤ The performance of point of sales (POS) and checkout system is directly linked with the satisfaction of the customers. The fully integrated system on one hand can take care of the routine functioning while analysing the sales data.
- ➤ Retail being service led business and manpower being key input to enhance the customer experience, people management is crucial for the success of the retailer. It takes care of whole range of activities such as hiring, training, retraining, making work schedules, disbursement of salaries etc.
- ➤ The retailers generally deal with the finished goods. Optimum utilisation of space, rotation of merchandise and achieving cost efficiency are the prime considerations for retailers while managing inventory. Economic Order quantity and Reorder points help in making decisions for routine inventory management.

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-{Revision Exercises]

Very Short Answer Questions

- 1. What are the main store operations?
- 2. What is checkout in a retail store?
- 3. What kind of merchandise inventory is there in case of retail stores?
- 4. What is VMI? Discuss in 3-5 lines.
- 5. What is bar coding?
- 6. What are motives of keeping inventory by the retailer?
- 7. What is stock out cost? How is it important for a retailer?
- 8. What is reorder point?

Short Answer Questions

- 9. Write a note on Facility Management?
- 10. Write a note on Energy Management?
- 11. Discuss the basic model of Economic Order Quantity?
- 12. What are the types of inventory control generally exercised by the retailer?
- 13. Write a note on Fully Integrated Point of Sales System.

Long Answer Questions

- 14. Write a note on People Management in retailing?
- 15. What are important considerations of Inventory Management in retailing? Also discuss the important tips in inventory management for retailers?
- 16. What is Retail Shrinkage? Discuss its types. How can it be minimised?

[Project Assignment]

Conduct a survey of five supermarkets in your neighbourhood, gather information about their store operations (including back end) and compare their features.

CHAPTER

15

Supply Chain Management and Logistics in Retail



After studying this chapter you should be able to understand

- ✓ elucidate the concepts of logistics and supply chain, key activities and process, growth factors
- ✓ explain the significance and key features of supply chain
- ✓ understand the key technologies supporting supply chain management processes
- ✓ key concepts and terms relating to logistics and supply chain management
- ✓ understand the logistics in Indian scenario

Introduction

Supply chain and logistics are linked with all Ps of marketing mix to varying degrees. In case of retailer, it is about how to provide right merchandise at right time in right quantity and quality to right customer at right location. A deeper understanding of basic functions of the retailing like sorting, offering assortment of merchandise, time and place utility and offering services clearly indicates that supply chain management is the common thread running through all these functions. Thus, we can see that the whole retail business is at stake without effective supply chain management (SCM).

As per the **Council of Supply Chain Management Professionals**, SCM encompasses the planning and management of all activities involved in sourcing and procurement, conversion and all logistics management activities. SCM also includes coordination and collaboration with channel partners, which can be suppliers, intermediaries, third party service providers, retailers and customers.

In essence, supply chain management integrates supply and demand management within and across companies. It also integrates business functions and processes within and across suppliers and retailers into a cohesive and high-performing business model.

Without SCM, the procurement and distribution activities are performed in an independent manner by different organisations in value chain. Organisations can have conflicting goals also. The alignment of goals of partnering organisations is required for effective SCM.

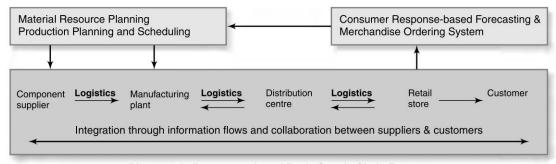
■●■ Supply Chain Activities in Retail

Taking clue from the above definition, the main activities covered under scope of SCM are as follows:

- Demand and Supply Planning—Demand forecasting
- Sourcing of Merchandise—Tendering, vendor rating and selection, ordering
- Inventory management—Location, number and size of warehouses, customer allocation
- Logistics—Modes of transportation, fleet size, vehicle routing, documentation
- Vendor Relations Management—Collaborations and partnerships across supply chain

Information Flow and Developing Partnerships

SCM activities in context of retail can also be categorised as Front End and Back End. In 50:50 joint venture between Bharti Retail and Wal-Mart for cash and carry operations, Bharti is managing front end operations while Wal-Mart's is handling back-end supply chain operations including inventory system, logistics systems, cold chain infrastructure, truck tracking programmes and fuel management for Bharti's own retail stores and other retailers.



Diagramatic Representation of Basic Supply Chain Process

Exhibit 15.1 Diagramatic Representation of Basic Supply Chain Process

This diagram (Exhibit 15.1) gives us only a general idea of SCM; it can differ from one business organisation to another. SCM practices of service retailers are different from merchandise retailers and those of store-based retailers are different from non-store based retailers.

A complete SCM includes all partners in value chain, from supplier's suppliers to customer's customer. It gives a comprehensive idea. Here, it is important to mention that though SCM runs through different organisations, it is described in terms of focus organisation. For example, in Wal-Mart's supply chain, Wal-Mart is the focus organisation. An organisation is part of many supply chains simultaneously which are running through it.

Logistics as an Integral part of Supply Chain Management

Logistics is that part of the supply chain which plans, implements and controls the efficient and effective movement and storage of goods, services and related information between the point of origin and the point of consumption in order to meet demand of consumers. The logistics can be further categorised as:

- *In-bound Logistics* For procurement of inputs from vendors
- Out-bound Logistics For distribution of products

Differences between Supply Chain and Logistics

Sometimes logistics and supply chains are used interchangeably. The study of differences is important for better understanding of both the concepts:

Logistics
The term logistics has origination in military.
Transportation is an integral part of logistics.
The term logistics is used in context of an individual organisation, flow of goods within and outside it.
It mainly focuses on locational positioning of inventory as per order.

Exhibit 15.2

Evolution of SCM and Logistics

The study of evolution will help in better understanding of both the concepts.

- The concept of Supply Chain has originations in logistics. The concept of logistics itself started in
 manufacturing organisations with streamlining movements of workers at workplace or assembly
 operations and then its horizon expanded to include material handling operations in a production
 facility.
 - At one stage, Ford exerted almost complete control over major aspects of inventory including sourcing, procurement and distribution.
- During 1970s, the term corporate logistics became popular to cover the flow of material and material between the different facilities and processes of a corporation. E.g. for a retailer, it is between distribution and retail stores.

Fundamentals of Retailing

- The term supply chain was coined in 1980s as an approach to add more value to outputs at successive stages by integrating logistics and other business processes.
- During 1990s, organisations were aiming to develop core competence by focusing on their key processes and outsourcing logistics and other activities. Some organisations have developed supply chain as their core competence. This process continued through 2000s.
- During this period, SCM got boost with support from software technologies like Enterprise Resource Planning, Oracle, Internet etc.
- In future, the Supply Chain Management processes will become more collaborative on the basis of real time information sharing and increased with more activities outsourced to third party or fourth party logistic service provider. These concepts have been discussed in later part of this chapter.

In retail sector, Wal-Mart has developed its own version of Just In Time (JIT) Inventory System for its retail operations, which need excellent supply chain capabilities.

Wal-Mart is the largest retail company in the world. It does not make even a single merchandise item. What it actually makes on continuous basis is a dynamic and robust supply chain? One can get better idea about it by visiting Wal-Mart's Bentonville 1.2 million square feet distribution centre. On one side of distribution centre, scores of Wal-Mart trucks unloading boxes of merchandise procured from thousands of suppliers across the globe onto conveyor belts. These conveyor belts feed bigger conveyor belt. This is like many small streams feeding a large river.

Then on the way, the bar codes on boxes are read on its way to other side of the building where electric arms guide these boxes to smaller conveyor belts which offloads them into trucks destined for Wal-Mart stores across the nation. Like main river splits into many streams.

In stores, as soon as cashier scans the merchandise at Point of Sales, the signal will go to supplier to start the production of that item, without any explicit Purchase Order. Wal-Mart has been successful been to replace "Inventory with Information", while working with suppliers. It has brought vendors online through exclusive Web Portals termed as Retail Link system. It helps its suppliers adapt to the new SCM technologies to add more value. EDI, voice-based tools and applications are also used in company.

Building such relationships and processes mean working closely with hundreds and thousands of suppliers, distributors, customs brokers, forwarders and others across the world.

Thus, Wal-Mart is making optimum use of technology to improve efficiency of each function of supply chain including procurement, warehouse and logistics management, inventory management and demand forecasting. It has extensively used hub and spoke method for supply chain and distribution.

Reference: Friedman, Thomas L., The World is Flat, Penguin Books, 2006, p. 151-54.

Exhibit 15.3

Growth Drivers of SCM in Retail

The study of evolution develops better understanding about the present retail environment. The following growth factors have contributed to adoption of modern supply chain practices by the retailers:

Emergence of Organised Retail and Big Retail Formats Supply Chain network is the essence of organised retail. The big retail store chains and big size formats like hypermarkets, supermarkets and 'cash-and-carry' want to achieve economies of scale like manufacturers and make operations more efficient and profitable. Store chains need better connectivity with retail distribution centres or warehouses which need further connectivity with supply sources.

Only big retailers are in a position to invest money in strategic assets like warehouses, cold chains etc. Big corporate houses in India have entered retail and investing in supply chain networks, many in collaboration with global retail giants.

Now many store based retailers are also entering multichannel retailing especially, internet retailing and catalogs need strong supply chain networks to support their operations. Future Group has entered internet retailing. Another good example of such retail format in India is Hyper City Argos, a part of Hyper City Retail.

Service Orientation Now customers look for *extended product*, that is, the basic product plus services—time-pressed customers looking for more convenience. As competition has intensified, retailers need help from suppliers and end-to-end supply chain to offer better product and services than their competitors. Now competition is not from within channels, but from other channels also. So dynamic supply chain has to be in place.

Fragmented Consumer Demands Now localisation of merchandise is important of success of retailers and customers are expressing their preferences more clearly, the niche SCM becomes important.

Niche SCM is basically about meeting customer demands at a micro level.

Dismantling of Trade Barriers The trend world-over is dismantling of trade barriers, both across the nations and within nations. This process got impetus with setting up of World Trade Organisation (WTO). Regional groupings such as European Union resulted in borderless unified markets where unnecessary delays due to custom documentations, multiple check points can be avoided. This is important for development of global supply chains in retailing.

In India, government has taken initiatives to eliminate trade barriers among states by bringing parity among taxation policies of different state governments. It is important for setting up national level supply chains. No foreign investor would like to invest money in fragmented supply chains.

Furthermore, in developed countries, the retail market is already saturated and growth rate, if any, is very low. Future growth can come only from emerging markets like India, China, Brazil, Vietnam. To exploit these markets retail giants such as Wal-Mart, Carrefour, Tesco have committed big investments in setting up supply chain networks in these countries.

Technological Support Now technological solutions are available to facilitate integration of supply chain activities within and outside the retailer's organisation. Effective monitoring of supply chain processes through technology allows retailers to outsource non-core processes. With technology becoming more accessible and affordable, even the small retailers can reap the benefits of SCM.

Need to Improve Margins The only option available before retailers to improve margins, especially in food and grocery items, is by reducing cost, not by increasing retail prices in the highly competitive market. For reducing cost and improving efficiencies, streamlining SCM is the best way out in present scenario.

In highly fragmented and vast Indian market, FMCG companies like Amul, Hindustan Unilever Ltd, Procter and Gamble, ITC, Godrej have developed supply chain capabilities and supplying products to millions of retailers across the country.

Among retailers Margin Free, Future Group have developed their own supply chain models while incorporating certain global best practices. With the changing environment, the retailers need to be proactive rather than reactive as far as the merchandising decisions are concerned.

Khadi and Village Industries Commission (KVIC) is an another good example of which have developed indigenous supply chain capabilities and positioned Brand Khadi in a big way. In 2006-07, it has production of Rs 17,562.40 crore, working with 3,000 NGOs, three lac entrepreneurs and nine million weavers. KVIC has 7,050 outlets throughout the country.

Reference: The Economic Times, dated 13th August 2008.

Exhibit 15.4

■●■ Features of Supply Chain Management

As per earlier discussion, we can say that **logistics is an integral part of SCM**. This can be taken as one of the most important features of SCM. In addition to that, SCM has following features:

Demand-Driven As markets are becoming more consumer-centric and localised, customers look for customised solutions even within those markets. Now with the application of technology like RFID at Point of Sales, there is better idea about changing customer demands. Flexible Supply Chain is required to meet customers' demands on continuous basis. Here demand should better be read as Real Time demand.

Now the distribution system is becoming customer's pull-based rather than supplier's push-based. Pull system is based on actual demand and push system is based on anticipatory demand.

Technology Driven Technology is the key enabler of supply chain. So, it has to be technology-driven to become more efficient as discussed earlier.

Strategic Focus The development of infrastructure like warehousing, cold storage facilities, vendor development, development of technological capabilities needs lot of investment; and thus need strategic vision. Developing core competence also needs strategic focus.

The tactical decision making is required to be responsive to emerging situations. For example, there is need to procure special inputs from unknown vendor from different parts of the world to fulfil, a special order. It may need special logistics solution.

Partnerships Among Channel Members The supply chain ensures that processes and operations in value chain are integrated and streamlined so that customer value can be maximised. This requires partnerships along supply chain.

- Partnerships can take shape in the form of joint ventures or outsourcing or both.
- Partnership is a sort of necessity in case of multichannel retailing.
- SCM in true sense should be multiple-owner where decision making is collaborative.
- Every member of SCM must play its role efficiently so that individual objectives of SCM partners are achieved and at the same time, overall performance also improves. Developing local suppliers and creating local beneficiaries pays rich dividends in the long run, especially in niche retailing.
- There may be legal contracts among supply chain partners to achieve desired objectives.

Dell, HP, amazon.com have developed excellent supply chain network through partnerships over time which has contributed to their success. UPS is doing order fulfillment on behalf of Nike shoes, any order for pair of shoes at website nike.com is actually routed to UPS.

As an example of service retailing, courier service providers collaborate with each other for timely and safe delivery of packets by pooling their networking resources at different levels. Transport companies also adopt **Pooled Delivery System** to save cost and time.

■●■ Benefits of Supply Chain Management

As retailers are in direct contact with the customers, supply chain is critical for retailers. Quality, cost and scheduling are as important for retailers as they are for manufacturers. The successful implementation of consumer responsive techniques such as Category Management; Collaborative Planning, Forecasting and Replenishment (CPFR); Efficient Consumer Response (ECR) in retailing, needs that efficient and effective supply chain mechanism should be in the place.

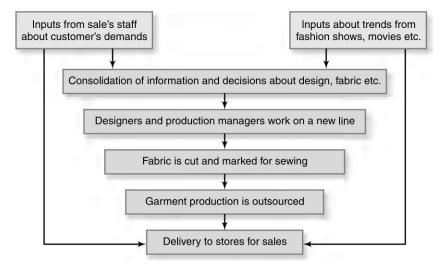
The successful business models of Japanese retailer 7-Eleven, Wal-Mart, Zara are based on supply chain management.

Efficient Replenishment of Merchandise The retailers want to make their supply chain and replenishment systems perfectly demand-driven so that customers get what they want at right time in right quantity and at right cost.

- SCM is primarily important in food items and consumer goods where regular replenishment is required. Otherwise, frequent 'out of stock' situations are bad for all types of retailers. Loss due to 'out of stock' is an important element of logistics cost.
- Through SCM, the retailers and suppliers want to achieve synchronisation between demand and supply. It is often said that Dell has a customer for every computer machine before it is manufactured. Thus, it has no inventory of machines.

New Product Introduction With integrated supply chain, the introduction of new product in the market is also facilitated. The success rate is likely to be higher. This is especially true for fashion retailers like Zara. Its 'Design to Market' implementation is very efficient due to its excellent supply chain.

The following diagram depicts the supply chain of an apparel retailer.



Reference: Case Folio, The ICFAI Journal of Management Case Studies, p. 34

Exhibit 15.5

Increased Visibility of Inventory There are numerous activities undertaken by suppliers and partners in the SCM network which are critical to achieve common goals. Key Performance Indicators (KPI) can be set for critical activities like delivery schedules, inventory levels, transportation cost, order fill rates, inventory turnover etc. Continuous monitoring of actual performance against these parameters gives comprehensive idea about the performance of logistics system. This can be made more responsive to consumer needs.

Fundamentals of Retailing

- The merchandise can be tracked by coordinating with SCM partners and help from technology like RFID, Global Positioning Systems (GPS).
- Retailers can monitor inventory levels across supply chain. They get an accurate idea about market trends of different product categories, brands, colours and styles.
- Retailer can give better and faster response to customer queries regarding product availability and order fulfilment.
- Lead Time of order fulfilment can also be minimised.
- The responsive supply chain gives flexibility to retailer to adjust to market demands. If a truck is headed towards store A and in the meanwhile there is urgent order from store B amid indication of weak demand from store A, then goods can be diverted towards store B.

Higher Value Addition Traditionally, there are many intermediaries involved between points of production and consumption.

• Through lean SCM, intermediaries or middlemen, which do not add value, are eliminated. We can take example of farmers directly supplying their products to retail stores, results in cost savings like commission for farmers as well as retailers. This is called **disintermediation** and it helps in reducing cost and brings more efficiency.

Suppose, the apparel retailer is a USA-based company, designing of product is being done in Italy, fabric used is Chinese, accessories are procured from South Korean company, stitched in Bangladesh and to be sold in stores of company scattered over European and North America. This shows how globalised supply chains allows to get benefitted from best producers and suppliers across the world.

Exhibit 15.6

• Greater value addition due to international outsourcing as manufacturers and retailers can take natural advantages offered by different economies and competitive advantages of different companies. This is possible only through supply chain.

During recent years the international sourcing has become a norm for retailers. The lead has been taken by global retail giants like Wal-Mart, Carrefour and Tesco. Wal-Mart is sourcing in a big way from China, it has set up representative office in India also for procurement. Gap is also procuring from India.

The Future Group, Godrej, Subhiksha, Reliance Retail, The Tata Trent and Shopper Stoppe are already procuring or have plans to procuring from China Mainland, Hong Kong, Malaysia, Thailand and other parts of the world. This is being done for variety of goods ranging from food and groceries, furniture and other speciality items not available in India. The MNC retailers coming to India may prefer to source their merchandise locally by working with local vendors.

Exhibit 15.7

Cost Leadership SCM does not mean that acquisition cost of inputs should be the lowest but total cost of bringing merchandise from point of origin to point of sales should be the lowest.

- Minimising wastage.
- Reduction of lead time, thus reducing investment in stock, saving rentals and interest.
- Outsourcing certain key logistical and supply chain activities to professional Third Party. Logistical activities also increases, cost efficiency as each partner can focus on its key processes.

Expansion of Business With supply chain capabilities, the retailers are able to replicate their successes at different places across the world. Like the McDonald's, Starbucks, Pizza Hut are doing. The retailers can also take benefit of sourcing opportunities available in any part of the world with the help of SCM. Many Indian retail chains which started operations at many locations without reliable supply chain network and are now in trouble.

Increase in Profitability Supply chain management increases the profitability of retailers whether it is return on investment, return on inventory.

- It increases profitability by bringing more efficiency in operations, increasing sales turnover and reducing per unit overhead cost like logistics.
- It increases customer satisfaction and as a result retailers get repeat customers.

The SCM is also important for managing risk. But SCM should not be merely seen as a technique of cost control, but as a customer value enhancing approach

Benefits to Economy The SCM across length and breadth of a country ensures economic development of the nation by facilitating manufacturing activities and trade.

- It can help in wastage reduction especially in farm produce where wastage is Rs 50,000 crores due proper storage, cold chains, processing etc. SCM can help society in two ways: first, by providing consumers quality products and second, boosting farm incomes.
- Gap between demand and supply can be narrowed and fluctuations in the pricing can also be minimised.
- It can help in employment generation, increased tax collection for government.

AMUL-Indigenous Mantra of Success The AMUL and Gujarat Cooperative Milk Marketing Federation (GCMMF) have been rated as the one of the most recognised brands and FMCG firms respectively in India. The reasons for the phenomenal success are not difficult to be identified. From the very beginning, it adopted network as the basic model for growth. It is a cooperative movement benefitting both milk suppliers on one hand and milk and milk product consumers on the other. AMUL is icon of quality products at reasonable prices and an extensive cooperative network.

On supply side, it has evolved a hierarchy of networking on its supply side. It has more than 2 million milk producers, ten thousand milk collection centres (called Village Societies) and thirteen Independent dairy Cooperatives (called union) in that order. AMUL is one such cooperative.



The milk collection takes place on the designated routes. The some milk is directed to chilling plants. The supply chain activities include training and technical support to farmers, providing solutions to their problems, payment systems. It has also implemented Enterprise Resource Planning (ERP) for bringing efficient management of supply and distribution network. Quality Control mechanism is also in place at different stages of supply Chain.

GCMMF manages and coordinates marketing efforts of all unions. It has 42 regional Distribution Centres serving more than 5,00,000 outlets.

The cooperative has outsourced many in-bound and out-bound logistics services to 3PL service providers.

Exhibit 15.8

Improvement in Operational Performance

To sum up the various benefits to retailers that matter directly to a retailer, we can say that it improves operational performance of the business: as per few reports, effective Supply Chain Management practices, results in specific benefits such as:

- 1. Reduced inventory levels by 10-15%
- 2. Reduced markdowns by 10-15%
- 3. Better utilisation of resources by 10-20%
- 4. Improved delivery reliability by 90-95%
- 5. Reduced cycle time by 10-20%
- 6. Reduced transportation cost by 10-15%

Exhibit 15.9

■●■ Key Technologies used in Supply Chain Management

Technology is the key enabler for the success of any model of Supply Chain Management. The technology covers each area of supply chain management. The technology helps in synchronisation of data and SCM activities across different supply chain partners.

HCL, SAP India, JDA Software, Oracle Retail, DVS, IBM, Infosys, Cisco, Manthan Systems, Bar Code India Ltd., Polaris Retail are among main organisations offering integrated solutions relating to Point of Sales, demand measurement, merchandise decisions, vendor selection, ordering, logistics, warehousing management, store operations etc. Here, we are discussing the key technologies used in supply chain.

Enterprise Resource Planning ERP is a cross-functional and enterprise wide solution-oriented application software which integrates operations, finance and accounting, human resources, inventory management.

ERP provides a single database across different functions in the organisation and suppliers. It is important for implementation for JIT implementation. The ERP brings efficiency in operations and simultaneously reduces the human resource cost.

There are special ERP software packages for integrating retail operations. Retailer will have to work in close association with ERP vendor to implement the concept. Though there are many software packages available in the market, there is need for customisation as per specific requirements of retailer organisation. SAP, Baan, Oracle are the key vendors of ERP software packages.

Suppose, there is need for replenishment as per demand pattern, the information will automatically go to purchase, accounts, material receiving and other concerned departments. Integration is better if the suppliers have also implemented the ERP.

Radio Frequency Identification Code (RFID) The basic concept of RFID is to fix a computer readable tag to each product at the store. The tag could be a sticker or built-in the packaging of the product.

The tags consist of silicon chip and an antenna. Chips are programmed to store the information. The antenna enables the chip to transmit identification information to the reader. The reader converts the radio waves into digital information that is displayed on the computer screen. With the help of Wireless Reading Device (RFID Reader), many tags can be read in a second.

RFID is used in manufacturing, warehousing and distribution and retail for tracking materials. For an integrated supply chain, the tags should be fixed in the product at the factory level itself so that its movement can be tracked. Many information needs of retailers are also fulfilled through RFID:

- Finding out date of manufacture and time spent in transit
- Location of distribution centre
- Identification of person who last handled the item
- Exact amount of specific items sold

- Recognition of payment method
- In a nutshell, RFID helps in:
- better real time inventory visibility and management, avoiding stock outs
- reducing lead time
- better customer services including checkout
- prevention of merchandise shrinkage
- It also helps in better demand forecasting which is very important for effectiveness of supply chain Thus, we can see that RFID facilitates many supply chain functions. The Future Group has applied RFID in certain product categories. The RFID has still not adopted in a big way by retailers in India.

Bar Codes Bar Code and RFID perform many common functions. RFID is more sophisticated and technically more advanced than Bar Coding. Most of the retailers in India are using Bar Coding system.

Internet and Internet-based Technologies Internet has made a tremendous impact on supply chain management practices. A number of companies like Dell and Zara have used the Internet effectively to lower the costs and add value to their businesses. A variety of e-business relationships are possible through Internet.

Internet is a medium that allows supply chain activities to be carried out in a complete synchronisation, speedily and cost efficient manner.

Internet creates many sourcing opportunities for retailers. Merchandise can be procured from spot markets also as per demand, in addition to long term sources. This reduces safety stocks and their associated holding costs. Web Services such as XML simplify information exchange and business processes within the enterprise and between supply chain partners. Internet improves response time.

The Intranet and Extranet are also sharing information within and outside the organisation.

Data Mining and Warehousing In retail sector, these concepts are used by retailers with a strong consumer focus. Data is usually generated at point of sales. Data mining is the process of analysing data from different perspectives. This information can help to increase revenues.

For example, most of sale of Product A takes place on weekend days. Product B is complimentary to Product A. Retailers can try to increase sales of Product B through cross-selling on weekends through better displays. In the same manner, the food retailers can increase sales revenues by introducing specialities on different days of the week.

Data warehousing is a process of integrating various databases into a centralised system, termed as data warehouses. It can be used by various users like vendors. Data warehousing supports data mining. Data can be stored in the form of various categories.

Oracle software helps in data warehousing and mining. Better Supply Chain response can be designed as information generated through data mining.

■●■ Some Important Concepts in Logistics and Supply Chain Management

Supply chain and logistics is a developed area. The familiarity with frequently used concepts and terms can help in better understanding of the subject.

Modes of Transportation

The term cargo is used for goods which are to be transported for commercial gains. There are different options available before different channel partners. The various modes differ with respect to delivery

schedules, cost, nature and volume of products they can carry. Controlled atmosphere storage and transportation has become the norm for food items. Various modes of transport are given as under:

Road Transport Used for short distances and transportation at specific retail locations.

Air Transport Used for high value and low volume items. Also used for perishable items like flowers where lead time is low.

Water Transport Sea routes are used for long distances and bulky items where lead time is high. Inland water transport is also cost effective and used for transportation across many European nations.

Rail Transport It is used for carrying bulk items like iron, oil, fertilisers. For the retail distribution of specific items like LPG, pipelines can also be used. Its initial cost is high but operating cost is low.

There is no dearth of innovation in modes of transportation. Wal-Mart uses huge conveyor belts for transportation of products within its distribution centres or warehouses. To make products available to final consumers, the local modes of transportation are used, if required. The food retailers use two-wheelers fitted with special boxes to maintain desired temperature conditions for making local deliveries.

The innovativeness in supply chain modes can be gauged from the fact that McDonald's is even making use of special bicycles for home deliveries in Chandni Chowk area in Delhi, as it is very congested and movement by alternative vehicles is very slow.

Bill of Loading is the basic document used for purchasing transport services. Only the party mentioned on bill of lading is authorised to receive the goods. It mentions terms and conditions of carriage. It also becomes a basis for raising freight bill. The freight bill can be prepaid or collect from the party receiving the goods.

Free On Board (FOB) is used to indicate who pays loading and transportation costs. FOB means that the seller pays for transportation of the goods to the port of shipment, plus loading costs. The buyer pays freight, insurance, unloading costs and transportation from the arrival port to the final destination. **FOB shipping** means buyer pays the cost and **FOB destination** means that seller pays the cost.

Intermodal Transportation Intermodal transportation usually means using more than one mode of transport without handling of freight itself while changing mode. Like ship, rail and trucks carrying products from manufacturer to retail distribution centre. The purpose is efficient and ensure safe delivery of products.

Third Party Logistical Service Provider

A Third Party Logistical Service Provider handles all or a few of logistical and supply chain activities, in a direct manner. They specialise in providing integrated and customised solutions to customer's needs based on market conditions. This frees retailers from routine logistics functions and allows them to focus on their core activities.

Fourth Party Logistical Service Provider or Virtual Logistics

Fourth Party Logistical Service Provider or virtual logistics integrates the resources and capabilities of its own organization with those of other complementary service providers to deliver a comprehensive supply chain solution to its customer. It is like a general contractor outsourcing all or most of the activities to others.

This is possible only through partnerships among best-of-breed third party service providers, technology providers and management consultants. 4PL organisations can create unique, innovative and most comprehensive supply chain solutions which cannot be provided by individuals organisations. They rely

on IT-enabled solutions to improve productivity and efficiency. Usually, 3PL service providers would like to upgrade themselves into 4PL.

Radhakrishna Foodland Group, a back-end distribution and logistics company, has partnered with McDonald's, it is likely to be the partner for Wal-Mart's operations in India also. Foodland's business model aims at offering a 'one stop shop' solution to independent retailers in a cost effective manner.

Unitisation and Containerisation

These terms are linked with packaging. The packaging of products or sub-packagings into one unit load for the purpose of efficient material handling or transportation or both is termed as unitisation.

The use of containers for intermodal transportation and material handling is termed as containerisation. It protects the product from damage.

Certain packaging configurations reduce logistics cost. For example, packing juices in concentrated form, stacking plastic chairs, using modular furniture, cars being shipped in SKD (Semi-Knocked Down) form. This is termed as **cube utilisation or cube minimisation**.

Reliance is entering into joint venture with UK based \$4 billion Supply Chain solution provider Wincanton for its food and grocery and hypermarket business. This will help Reliance efficiently run its critical back end operations, which essentially include warehousing of goods and transporting them to Reliance Retail stores on time.

Reference: The Economic Times, 13th August 2008.

Exhibit 15.10

Warehousing

Also termed as distribution centre in the context of retail operations specifically in case of store chains. It is a covered area used for storage of goods before further distribution. It performs functions like receipt and inspection of quantity, quality and price, storing and docking, prepackaging, sorting, tagging MRP and handling reverse logistics. Prepackaging is receiving supplies in bulk and then packed singly.

Through consolidation, merchandise received from different manufacturers is dispatched to specific stores as per their demands. This is also termed as *Order picking*. This saves transportation cost and saves congestion at retail store. The warehouses may have refrigeration systems to maintain required temperature conditions for dairy products, fruits and vegetables etc.

They are equipped with material handling equipments like forklifts and cranes for the purpose of loading and unloading of material. The material handling equipment depends upon nature of products to be stored.

The storage and tracking of materials in the warehouse is facilitated and coordinated by the Warehouse Management System (WMS), a database software programme.

Docking is the placement of stock in the warehouse in a space efficient manner. Generally, First In First Out (FIFO) principle is followed for storing goods as it minimises risk of obsolescence and deterioration. The pallets are used for placing the material to be stored.

Cross Docking is the term used in logistics for unloading materials from an incoming transport vehicle and loading these materials in another transport vehicle, with little or no storage in between these steps. The mode of transport may change. Cross docking may also be done for sorting and combining products to be sent to different stores. This is done at distribution centres.

The understanding of above terms is important as retailers are sometimes receiving supplies directly from manufacturers and bulk suppliers, especially international.

Goods Received Note (GRN) is prepared when goods are received at the retail store or warehouse and matched with purchase order. This is authorisation for payment to vendor by accounts department. After docking, merchandise is tagged with bar codes/RFID. This can also be done by manufacturer at production stage itself, thus saving time and resources of retailer.

Inter Transfer Note (ITN) is prepared when merchandise is sent to retail store from warehouse or retail distribution centre. ITN out is prepared when merchandise is sent or returned from retail store to warehouse. Merchandise may then be sent to the vendor and a debit note is issued to the vendor so that he can make accounting entry for returned goods.

Vendor Relationship Management

Vendor Management is important for achieving merchandise objectives and often needs collaboration between the vendor and the retailer. Term Hit ratio or Order Fill Rate gives an idea about vendor's performance in meeting delivery schedules.

Vendor Managed Inventory (VMI) also known as continuous replenishment is a system in which all major aspects of inventory at store are managed by vendor instead of retailer. For this continuous sharing of information is required. This allows retailers to become more focussed on sales efforts and investment in inventory is minimised. In many hardware stores, the retailers just keep samples at their and take orders from customers. They forward the order to the vendors and then make deliveries directly to customers.

Order Fill Rate is the ratio of number of items delivered by the supplier to total number of items ordered by the customer. If a customer places order for 100 items and if only 95 items can be delivered, then fill rate is .95 or 95%.

The retailers always try to maximise fill rate. With increase in number of items ordered, fill rate generally go down. Fulfilling objective of high fill rate means increase in investment by the supplier. Vendor should be more reliable to achieve high order fill rate.

Lead Time is the time elapsed between placing an order and delivery of goods. It can be categorised as minimum lead time, maximum lead time and average lead time.

Inventory Velocity

The inventory velocity can be defined in terms of time taken to complete all stages of supply chain from sourcing of inputs to delivery of final product to customer. The lesser the time taken, the more is the inventory velocity. There are many inventory management practices to improve the velocity. For a retailer, the inventory velocity means how quickly, the product is off the shelf. The items can be defined as slow moving, medium moving and fast moving as per benchmarks set by retailer itself or by industry standards.

Inventory velocity is sometimes referred to as inventory turnover. Higher the turnover of an item, higher is the inventory velocity.

Reverse Logistics

The term reverse logistics is used while replacing, repairing or recalling a product from the market. In reverse logistics, product distribution process is reversed from consumer to producer, with retailer usually playing an important role in it. Shortening product life cycle due to the changing consumer preferences, increased consumer awareness, environmental issues are a few reasons for increasing importance of reverse logistics.

The reverse logistics is linked with image of the retailer among consumers, CRM and even Corporate Social Responsibility (CSR). As the retailing is becoming largely service oriented, instances are increasing in retailing and marketing, where the concept of reverse logistics is applied:

- Exchange schemes in consumer durables and cars wherein old products are exchanged for new
 products. The used products may be diverted towards secondary market. Apparel retailers may
 divert unsold products towards discount stores such as off-price retailers.
- Products which are under warranty period and which need repairs are to be transported to common repair centres.
- In pharmaceutical industry, recalled products have to be recycled or disposed off. A product recall is a request to consumers to return to the manufacturer, a batch or an entire production run of a product, usually over public or environmental safety concerns. The Dell and Apple recalled batteries made by Sony.
- Documentation, accounting entries, tax and duty payments and decision about setting up repair facilities are the issues linked with reverse logistics.
- Wal-Mart has launched 'Trade in and Recycle' programme at many of its stores where a customer
 can get money for their old electronic products like iPods. Dumping old electronic and computer
 products has become a big issue world over.

The channel partners can offer better services to customers in an innovative, even in reverse logistics. For example, United Parcel Company (UPS), a package delivery company, does repairing of Toshiba machines, which are under warranty, at its own premises. Customers may not be aware of this fact. This helps in timely delivery of repaired machines to customers and at the same time saves logistics costs for Toshiba. Earlier the machines were being transported by UPS to Toshiba's facilities for repairing.

■●■ Logistics—Indian Scenario

Logistics is the bane of retail sector in India. The following will help to get a better idea about logistics scenario in India:

- Logistics cost at 14-15% of GDP is much higher in India as compared to developed countries. There is a scope for bringing it down to 9-10%, in line with developed countries. Even saving of 2-3% may result into savings of \$ 20-30 billion for industry and the nation's economy as India is a trillion dollar economy. Finally, the consumers will also be benefitted.
- A lot of money is being invested on infrastructure like construction of roads, railways, ports etc.
 The projects like Golden Quadrilateral (linking major cities across India) and Mumbai-Pune
 Expressway need special mention. For the first time, infrastructure development has acquired
 attractive investment proposition in India.
- Government has started various projects to link villages to small cities and small cities to big cities so as to make network complete. India is geographically diverse country and more than 60% of the population resides in villages, which can be a good market as well as source of inputs. Retailers need better logistics to reach out to the rural consumers.
- Better logistics and supply chain can help to minimise wastages especially in case of fresh produce.
 There is an urgent need to storage, cold chains, refrigeration systems etc. The retailers and logistics companies can join hands to develop common infrastructure.
- There is need is to integrate and streamline policies and procedures across states to take benefit of physical infrastructure. The introduction of VAT is a positive step. With Goods and Services Tax (GST) being implemented in another two three years, the process will get further impetus. The logistics and supply chain should be demand driven rather than tax driven.

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- The 75% of expenditure on logistics goes to truck industry, which is highly fragmented. A unified system is required to tackle issues like multiple check points, toll barriers. This can avoid unnecessary delays, cost and time over runs.
- There is need for greater Public Private Participation (PPP) to develop logistics and supply chain networks.

Now many big retailers are entering into partnerships with global retail giants and technology solution providers to streamline back end supply chain. Like JV between Bharti Retail and Wal-Mart, Tesco and Tata, Reliance and Wincanton.

At the end of the chapter, we can say that supply chain management is not only a special technique but also it is fast becoming the essence of doing retail business. The retailers now realise that keeping other factors constant, supply chain can be taken as final frontier of retail war.

[Summary]

- ➤ Supply Chain is a consumer response-based process running through the various organisations linked in value chain and in which inventory is ought to be replaced by information. The key processes of organisations in value chain are synchronised to achieve common inventory related objectives. Logistics deal mainly with physical flow of inventory on the basis of information flows.
- > The expansion of organised retail and big retail formats, multi-channel retailers led to growth of SCM. Multi-channel need extensive network of partnering organisations spread across wide geographical areas to make merchandise and services available. Again, service orientation in retailing is the need of the hour which needs cooperation among various organisations and integration of world economy with dismantling of trade barriers and globalisation. Furthermore, technology is facilitating the process.
- ➤ Being demand-driven, technology driven, strategic focus and partnering with vendors and customers are key features of SCM. Logistics is an integral part of SCM.
- ➤ The effective and efficient SCM offers benefit of timely replenishment, increased visibility of inventory, higher value addition and profitability. It helps in achieving cost leadership and expansion of retail business.SCM is linked with development of physical infrastructure and brings benefits to economy also.
- ➤ With outsourcing becoming a norm, many retailers are engaging third party and fourth party logistics service providers to manage operations like transportation, warehousing, order management. The reverse logistics, starting from consumer towards manufacturer via retailer, is also an important concept linked with recall, repairing and replacing certain categories of items such as broken down goods, environmentally unsafe products.
- ➤ The process of SCM is basically about integration of processes and has got impetus from technology such as Enterprise Resource Planning which provides data base accessible to various functional areas like production, marketing, procurement and finance within organisation and vendors across supply chain. It brings commonality of goals and objectives.
- ➤ Technological systems such as Radio Frequency Identification Code (**RFID**) and Bar-Coding generates information at point of sales and facilitates monitoring across different stages of inventory flow. Data Mining and warehousing help in application of data for decision making.
- ➤ The supply chain and logistics have caught attention of retailers in India during recent times. Logistics cost is much higher in India as compared to other countries. A lot of investment is going into infrastructure such as road, railways, ports development. Cities, towns and villages are being linked with one another India. The taxation reforms in form of Value added Tax (VAT) which may further be replaced with Goods and Service Tax (GST) in near future may provide further impetus

to the process of development of supply chain. Many infrastructure projects are being developed on Public Private Participation model in India.

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-{Revision Exercises}

■ ■ Very Short Answer Questions

- 1. What is the concept of Supply Chain Management?
- 2. How supply chain is different from logistics?
- 3. "SCM should be based on consumer response". Discuss.
- 4. What is Cross Docking?
- 5. What is Order Fill rate?
- 6. How is Vendor Managed Inventory beneficial to retailer?
- 7. How SCM is important for Multi Channel Retailers?
- 8. Discuss consolidation function in warehousing with some practical or hypothetical example.
- 9. Discuss Goods Received Note (GRN) and Inter Transfer Note (ITN).
- 10. Discuss the terms intermodal transportation and FOB.
- 11. What is data mining and warehousing?
- 12. How SCM is linked with all Ps of Marketing Mix?

Short Answer Questions

- 13. What are the main growth factors responsible for development of Supply Chain Management?
- 14. Discuss the importance of SCM for retailers.
- 15. Discuss Radio Frequency Identification Code in detail.
- 16. How integration of goals and processes is important for effective SCM?
- 17. How the concept of Reverse Logistics has become important during recent times?

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- 18. Discuss the concepts of Third Party Logistics and Fourth Party Logistics Service providers.
- 19. How SCM is a value adding process to retailer's business.
- 20. Briefly discuss of evolution of Supply Chain Management.

Long Answer Questions

- 21. Discuss the main activities in Supply Chain Management.
- 22. Explain the technological environment supporting growth of SCM in retail sector in detail.
- 23. How the retailers, consumers and farmers in India can be benefitted from modern Supply Chain Networks?

[Project Assignment]

Collect information about Supply Chain activities of fast food retailer in your area and make a report in 250 words.

CHAPTER

16

Customer Retention: Customer Loyalty, CRM and Customer Services



After studying this chapter, you should be able to understand

- ✓ understand the concept of customer retention in the context of customer relationship cycle
- ✓ explain the concepts, stages and significance of customer loyalty
- ✓ elucidate the significance and process of Customer Relationship Management
- ✓ explain the tools and techniques of loyalty programmes
- ✓ understand concepts like lifetime value, RFM, data analytics, data mining
- ✓ elucidate the concept of customer services, its significance, levels and quality standards

■●■ Introduction

"Truly loyal customers can't imagine doing business with anyone else. They are your best means of advertisement because they've become advocates of your company. They bore their friends with stories of how great you are", say Shaun Smith and Joe Wheeler, authors of *Managing the Customer Experience*.

Out of the four stages of Customer Relationship Cycle—Customer Acquisition, Customer Development, Customer Retention and Customer Decline, the customer retention is being discussed in detail in this chapter. A brief discussion about these stages will help students to develop understanding about the overall context.

During **customer acquisition**, both the shopper and the retailer aim and search to fulfill the needs and objectives. It is the period of settling in, exchange of information and resulting in purchase decision, collection of payment, delivery etc. It may also entail acquisition of more information about the purchaser. Buyer evaluates the service quality of the seller. Transactional benefits are more important to the customer. During this stage, the promotional efforts are crucial to achieve the objectives.

During **Customer Development** stage, retailers try to cross sell and up sell. It oversees the increased number of transactions, customer showing greater interest in products offering of retailer.

Retailers aim to maximise and prolong the **Customer Retention stage.** It witnesses the relationship of stability, trust and commitment. Various customer loyalty schemes are offered to the customers. There is usually upgradation of the customer to higher levels of loyalty programs. The non transactional benefits become more important. Customers feel proud about their association with the store. A simple example of retention is that banks offer loans at lower rate to their existing customers whose track record of making payment is satisfactory. Even the *kirana* stores usually offer some nominal discount to their routine customers so that they feel proud that they are being treated in a differentiated manner. To put it in other words, retailers tend to address esteem needs of their customers by doling out certain favours to their routine customers.

Here, it is important to mention that getting customers into the store is a challenging task and needs a lot of effort, but perhaps the greater challenge lies in retaining and making them repeat customers. The customer loyalty and CRM are important dimensions of Customer Retention. These should also be understood as Customer Retention Strategies.

Retailing, as is the case with other business activities, is not free from upheavals. Customer Decline stage is marked with customers reducing their purchase frequencies and value of purchases. They may altogether stop patronising the store. This can happen due to the population shifts, customers shifting their loyalties to other stores, change in tastes, preferences and so on.

■●■ Customer Loyalty

Customer loyalty is the belief of the customer in supplier's offer, the belief is based on value proposition and it usually results in the repeated purchase behaviour. As per one general assumption customers who keep coming back to a supplier to purchase merchandise are loyal, but it can be purely due to the convenience and not because that the customer is satisfied with the store brand. Thus customer loyalty as concept may be difficult to explain in precise terms. Moreover, today's shoppers are more discerning and far harder to please, not to talk about appease. So, explanation of the term becomes even more difficult.

The idea about various dimensions of customer loyalty can help in better understanding of the concept. A few dimensions of loyality have been discussed here:

Emotional Loyalty Personal association with a particular store on the basis of value-real or perceived. For example, customers visiting India Coffee House in Chandigarh for years together, to relish its authentic environment.

Price Loyalty Here, the motive of customer is to derive some economic benefits. Customer may not be loyal to a particular retailer, he or she may keep switching from one retailer to another, depending upon the price offer.

Monopoly Loyalty This is loyalty by compulsion as there is little choice but to purchase from a single seller.

Various Stages in Loyalty Development

Customer Relationship cycle gives an idea about the various stages of relationship. But more specifically, evolution of a prospect into a loyal customer usually entails the following stages:

	Stage	Brief Description			
	Loyal Customer has mutually beneficial relationship based on value and trust, a sort of partnersh with the retailer.				
Y	Advocate	recommends others to make purchases from the organisation.			
A [Supporter	likes the organisation, but the support is passive.			
L	Client	makes repeat purchases at store, but may not be very satisfied.			
т	Purchaser	buys the product.			
$\mathbf{Y} \mid$	Prospect	a person about whom organisation believes that can be persuaded to buy.			

Exhibit 16.1

The above description gives only a general idea. It is likely that a customer may become advocate or partner just in one or two visits.

■●■ Customer Relationship Management

Building relationships is vital for the success of every business. It can be applied in the context of suppliers of merchandise and services, employees and customers. Among all these, developing relationship with customers and earning patronage is most crucial for the survival and growth of all businesses including retailers big or small.

Customer Relationship Management (CRM) is a holistic and collaborative approach to develop and manage relationships with the customers. It is based on the premise that there is history of exchanges between business and customer that may be continued in future as well if conscious efforts are made.

CRM software is used to support these processes, storing information on current and prospective customers. Usually, a database is created which can help retailer to improve services to customers. Wal-Mart relies heavily on use of customer data to improve its product offering including goods and services. This can be even more useful for service retailers. In India, retailers such as Reliance Retail, Shoppers' Stop and banks such as HDFC, ICICI have adopted CRM as a strategy to deal with competition.

Many conventional retailers in India at their own local level make use of 'kitty schemes'. There are select members under each scheme, each member paying a fixed amount every month. There is lucky draw every month. If a kitty member wins lucky draw, then he or she does not have to make payment for rest of period and can take away merchandise of the specified amount. Other members, who do not win any award are given merchandise for the amount they deposited with the retailer at the end of scheme period. Through these kitty schemes, the retailer is assured of some business and members have the chance to win lucky draw, with payments for rest of the period is waived off.

Exhibit 16.2

Reasons for Adopting Customer Loyalty Programmes/CRM

Retailers are increasingly identifying key customer groups, clarifying and ranking their expectations, building up the systems and processes around those expectations. A vast majority of USA retailers are using loyalty programmes. Almost three out of four USA buyers have acquired membership of loyalty programs. Shopper's Stop claims more than 60% of sales from loyalty members. CRM and loyalty have become crucial owning to following developments in the retail arena:

- Hyper competition in the market
- Low product differentiation due to standard SKUs

During recent times, there has been intense competition among retailers for the customers' mindshare which can give business to them for a longer duration.

Retailers, on one hand, spend large amount of money on advertisements and promotional campaigns, for improvement in technology, operations and processes. On the other hand, they tend to rely on low prices and discounts to attract customers towards the store. This paradoxical situation makes retail business financially unviable in the long run.

Customers may keep coming back to retailer to avail benefits from discount schemes. If some competing retailer starts offering lower prices, then the customers may shift to that retailer. Thus, discount schemes themselves may not be reliable to earn the long-term patronage of the customers. Then, what are the options left with the retailers? The loyalty problems offers some genuine help.

Second, due to the standardisation of products and store offerings, the differentiation is a difficult task. Once retailers are able to achieve consistency in the quality of services as a part of CRM, it can give them a long-term competitive advantage over rival competitors. The ensuing discussion about benefits offers more reasons to retailers for adopting CRM programmes.

Benefits of Customer Loyalty/CRM Programmes

The various benefits which can accrue to the retailers due to customer loyalty and CRM are discussed below:

Higher Profitability Retailers adopting CRM system are able to generate higher revenue and profits. Effective CRM programmes increase perceived value of the products in the eyes of customers. The sales cycle is also reduced.

It will not only help in repeat purchases, but also increases the scope of cross selling and up selling. Cross selling is the purchasing of complimentary goods by the buyer. Up selling is selling more of higher value goods to the customers.

Lower Cost of Retaining Old Customers The cost to attract and retain customers is lowered due to customer loyalty. As per one assessment, attracting new customers can be five to ten times more expensive in comparison to retaining old customers.

This is based on calculations of expenses incurred on prospecting, advertisements, sales promotions, free samples, administration and database management.

Better Satisfaction of Customers CRM aims at fewer customer problems, it also improves quality of services provided to customers, thus increasing customer satisfaction.

Greater Employee Productivity It results in improved employee productivity as there is smoother workflow. It is always easier to cater the demands of the existing regular customer.

Helps in Micromarketing The availability of better and detailed information about the customers help in micromarketing.

Better Visibility of Business Performance There is improved visibility of the business performance and also more accurate sales forecasting.

Development of Store as a Brand Retailers should look beyond immediate customer satisfaction and try to develop store as a brand. Create an emotional bond with customers by offering them simple to use services.

Through CRM, customers can be made to believe that they come first with the retailer. Customer centricity is vital for the success for the retail business as it is built around customers, it is important to understand customer's needs and their behaviour.

CRM as a Process

In the small and conventional retailing formats such as convenience stores, apart from satisfying customer needs on regular basis, the personal rapport with customer has always been and still is the most potent weapon to persuade customers to the store. Kirana store or neighbourhood store owners use to have complete idea about customers and their family members, their profile, brand preferences and buying habits. This memory based personalised approach helped them in the retention of customers.

But in case of large retailers as the sheer number of customers making purchases is very high and they come from large catchment areas, CRM programmes are based on optimum use of technology.

CRM is a continuous and iterative process with the motive to convert customer-based information into customer loyalty. It consists of six steps:

- 1. Acquiring and Maintaining Consumer Database
- 2. Analysing Customer Data
- 3. Identifying Target Customers
- 4. Developing CRM programmes
- 5. Implementation of CRM programmes
- 6. Evaluation of Performance of CRM programmes
- **1.** Acquiring and Maintaining Consumer Database The first and most vital component of any loyalty programme is its database, termed as Customer Data Warehouse. Many loyalty programmes become redundant because the data is not continuously upgraded and maintained.

Data Warehouses The customer data warehouse is at the core of effective integrated CRM processes and it facilitates an integrated, consistent view of the customer data. Technology is the key enabler in the process which also needs continuous upgradations and investments. It consists of following contents:

Coustomers Transactions It is the complete history of merchandise purchases by the customers.

Customer Interactions It entails history of contacts while visiting stores or through websites, catalogues, telephones, direct mails etc.

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Customer Preferences Such as colours, brands, style etc.

In addition, information about demographics and psychographics, customer response to marketing and sales promotion activities can also be a part of data warehouses. Database also helps retailer to keep track of purchases made by the customer and motivates them to come back to store by making contacts with them.

Getting Information Generating databases is quite easy in case of internet and catalogue retailers. It happens in a spontaneous manner as the customers making purchases through these channels have to provide the basic information such as name, address, contact number, mode of payment etc. While in case of in-store transactions, payment is made through cash, cheque or credit cards, information is not generated automatically and has to be sought explicitly.

Customers can be offered membership of shopping cards also. Through them, the information may be sought directly by the retailers as the customer is motivated to become member of loyalty programme. The information is used at later stages to reward customers.

Few examples of Frequent Shopper cards are Clubcard by Tesco, First Citizen cards by Shopper's Stop, RelianceOne by Reliance Retail, Petrocards by some oil companies. The other examples of loyalty schemes are Point Scheme offered by supermarkets, Frequent Flyer Reward schemes offered by airlines.

The popularity of these schemes is facilitated by the spread of Information Technology. Users are awarded points each time a purchase is made which may be stored on card and can be 'encashed' at a later stage in the form of gifts, merchandise or cash discounts.

Now, there are many options available to retailers in the form of Swipe cards, Smart cards. Smart cards consists of a small microprocessor which can contain massive amount of information, which is updated each time, a purchase is made. It can be used to update database records. Sometimes these are used to make payments in transportation systems also such as Octopus Card in HongKong.

Data can decay over time because of dynamics in the population and business world and there is need for continuous upgradation of data as well as customer segments.

2. Analysing Customer Data and Identifying Target Customers During this stage, database is sought to be converted into actionable information.

Data Mining Data mining is detailed analysis of the information available through data bases discussed under first step. Once these pieces of information are integrated and purchasing pattern of a customer is established, the retailer can make customised offers and privileges to the customers based on individual preferences and past buying patterns. The data mining has been used extensively by the Tesco.

Thus, it facilitates micromarketing. It has enhanced the scope for applying customer databases to improve cross selling of the merchandise.

Analytical CRM

In context of loyality programmes, the term Analytical CRM is very important. It analyzes customer data for a variety of purposes with the help of data mining.

- Designing and Implementing targeted marketing campaigns, also for customer acquisition, cross selling, selling up.
- Analysing customer behavior in order to make decisions relating to products, services, pricing, product development
- Management Information Systems used for forecasting and profitability

Market Basket Analysis It is used to determine which products will sell together. Thus, the retailer can decide which product to cross sell and what merchandise is to up sell to a specific customer profile group. Thus, it helps in taking merchandising decisions such as placement of product, visual displays etc. in the store.

This is done by analysing the composition of purchases by the shoppers during a single shopping occasion.

3. *Identification of Target Consumers* By analysing the consumer data, the next step is to segment the consumers on the basis of analysis. Because of intense competition and resource constraints, it is important for retailers to identify the market segments which should be served by the retailer.

The importance of identification of target consumers can also be understood better in the context of Pareto's **80:20 Rule**, that is, 20% of our customers contributing towards 80% of the sales. As one executive notes: "I don't care what 70 per cent of the customers want. I only care what 5 per cent will pay for." That is the precise reason that Dell Computers and many other marketers of computer products have dedicated web sites for high-volume users.

Such practices pay the dividend of building customer trust and hence loyalty. Though every retailer would like not only to consolidate its existing base of customers but also broaden it so that it is assured of consistency of sales revenue as well as future growth; future, it is important to identify the best customers within broad categories of customers.

The few concepts relating to identification of target customers are being discussed as under, which can be used singly or in combination with each other:

Lifetime Value Customers (LTV) Old customers are like an asset to the retailer. LTV is the present value of all the profits through potential purchases made by during customer's lifetime. Through CRM, the retailers try to increase the Lifetime Value of the customers.

A customer purchasing grocery worth Rs 1,000 once in a month has less lifetime value in comparison to a customer who purchases grocery Rs 200 per visit but making purchases twice a week. In a hypermarket, a customer purchasing apparel merchandise has more lifetime value than a customer who purchases grocery goods for same amount of purchase, as margins on apparel are higher.

RFM Analysis It is used for analysing consumer behaviour, segmentation and generating mailing lists. It is generally used in database marketing and has thus become important in retail. RFM stands for three attributes as discussed below:

Recency—When was the last purchase made?

Frequency—How many purchases have been made by the customer during a definite period of time?

Monetary Value—What is the monetary value of the orders during that definite period of time? To create an RFM analysis, retailer creates categories for each attribute.

Let us take an hypothetical example as mentioned in Exhibit 16.4 for a particular supermarket retailer, **recency** attribute has been **divided** into three categories: customers with purchases within the last 3 months; between 3 to 6 months; and longer than 6 months.

Frequency attribute is divided into three categories: with less than 5 purchases, between 6 to 10 and over 10 during a particular period.

Monetary Value is divided into different slabs such as purchase amount less than Rs 2,000, more than Rs 2,000. As total spend during the specific period.

Once each of the attributes has appropriate categories defined, segments are created from the intersection of the values. For example, one segment can be with purchase made during less than 3 months, with purchase frequency 1-5 and with monetary value of Rs less than 2,000, 8% of customers belong to this segment.

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	Recency		Frequency	Monetary Value
0-3 months	3-6 months	> 6 months		
.08	.09	.10	1-5	< Rs 2,000
.05	.05	.06	1-5	> Rs 2,000
.05	.03	.04	6-10	< Rs 2,000
.02	.03	.05	6-10	> Rs 2,000
.07	.05	.06	over 10	< Rs 2,000
.05	.07	.05	over 10	> Rs 2,000

Exhibit 16.4

These figures are just indicative and do not represent any actual data. The total of all fractional figures is given in table is 1. These figures can be represented in percentages also. Based on above calculations the shoppers can be categorised as per the RFM model given below.

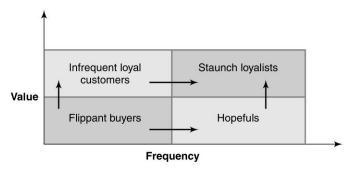


Exhibit 16.5 RFM Model

The effort of retailers is to convert hopefuls and infrequent loyal buyers to staunch loyalists. There can be different marketing strategies and offers for the different market segments. The purpose of RFM analysis is to estimate lifetime value of each customer.

Customer Pyramid The 80:20 rule discussed earlier can be applied for better understanding of this concept. Catering to demand of each and every customer may not be profitable for them. Customer Pyramid helps them to differentiate their most profitable customers from less profitable and unprofitable customers. But this classification is not static but is dynamic with customers shifting from one segment to another.

In case of Indian Railways, passenger travelling in AC class can be more profitable in comparison to passenger travelling in general compartment though both travel the same distance. A bank may try to differentiate their class customers from mass clientele (no-frills account holders).

Finally, **Customer Segments** can be identified by combining RFM and Customer Pyramid and also by taking clue from the concepts such as BCG Matrix, retailers can divide their customers into various categories given as under:

- 1. Low Value Segments
- 2. Growable Segments
- 3. Most Valuable Segments



Exhibit 16.6

It is important to mention that the basic idea about differentiation of customers into Low Value, Growable, Most Valuable segments or into different levels of pyramid such as Silver, Gold, Platinum or terms such as Infrequent loyalists, Hopefuls, Staunch loyalists, is same, that is, the segmentation of customers on the basis of sales and profitability potential. These terms can be used interchangeably also such as Platinum can be equated with Most Valuable segment, and Gold with Growable segment. But for marketing and other practical purposes, the terms such as Silver, Gold and Platinum are used most of the times.

Taj Group of Hotels (a Tata Group company) is offering various benefits to its patrons under its Taj Inner Circle programme. It has three membership levels- Blue, Silver and Gold. The different membership levels enjoy many privileges and discount on services offered.

4. Developing Loyalty Programmes After segmenting customers according to their potentiality, next step is to develop programmes for different customer segments. This stage observes the greater relationship stability, trust and commitment by the retailers. The various customer loyalty schemes may be offered to customers.

The retailer would intend to heighten exit barriers to retain the customers for a longer duration. Two types of benefits can be offered to the customers to achieve this objective.

Transactional Benefits It consists of hard benefits mainly points collection, redemption system, discount schemes and other value-added offers.

Non-transactional Benefits These are also termed as soft benefits; these are intangible but make customers feel that they are proud customers of the retail store.

As discussed earlier, shopping cards are instrumental in getting information from the customers. Offer of reward and incentives motivates customers to enroll themselves for loyalty programmes.

During this stage, the non-transactional benefits become more important. The customers feel proud about their association with the store.

The retailer should be cautious before offering any benefit which is difficult to be sustained in the long run. Withdrawal of any benefit may not be taken kindly by the retailer and may hurt the image of retailer.

With every retailer going for loyalty programmes, the competitive advantage may not be sustainable in the long run, unless it is continuously revised as per changes in competitive environment.

Coalition Loyalty Programme: The retailers have to continuously review and upgrade their programmes to enhance the shopping experience and create customer delight. An example is coalition card programme in collaboration with bank or financial institution, with credit and debit card being offered.

In a coalition loyalty programme, three or more companies form an alliance to share the branding, operational expenses and marketing expenses. Most importantly, it results into common ownership of data. From customers' point of view the Coalition Loyalty Programme is beneficial:

- It provides an extended platform as customer can use the card at more places such as banks, retail stores
- It translates into higher earning velocity of points and get more benefits
- It offers the convenience of carrying only one card

Now in the era of partnerships and collaborations to offer better value to customers, the Coalition Loyalty Programmes are to gain more currency. i-mint is the India's largest coalition loyalty program, with approximately 5 million members.

Exhibit 16.7

Customised Services The mantra of success for small retailers is personalised services. In general, services are offered according to the profitability of the customer segments. The specialised & prompt services are offered to customers who are higher in the customer pyramid.

But all customers within the same category may not be identical. In that context, the concept of 'one to one' retailing has become very important. The requirements of a young single customer may be quite different from a married customer which is staying in joint family.

Even big retailers want to function with the spirit of small retailers. They try this with the help of technology in a more cost effective manner. Airlines provide their most frequent flyers with special phone numbers, check-in services and a higher level of responsiveness.

Despite the standardisation of processes, the implementation of CRM is at local level. Customised services are appropriate because of cultural and language issues. It results in better customer satisfaction. Big retailers may outsource few functions & processes to ensure local touch in CRM programmes.

Customer Complaint Handling Mechanism Top performing companies also make it a practice to alert customers about potential problems. The customer problems should be tackled during initial stage itself, before they get bigger.

The well-established complaint handling mechanism should be in place-customer should be made aware of how, where and whom to approach in case of problem. Suggestion boxes, complaint boxes, help from customer care executives are crucial. The store personnel should be trained to listen and handle customer problems. Even patient listening may prove to be remedial in many cases.

Making Customers More Profitable Retailers always try to convert good customers into best customers on continuous basis- A Silver category customer to Gold category, and a Gold Category to Platinum. An airlines will try to shift customers from economy class to business class which is more profitable. A car dealer always intends to sell higher model to the existing customer as profit margins will be higher.

This can also be done with the help of cross selling and up Selling. Add on selling is also tried by offering additional new products and services to the customers.

Event-driven Marketing has become an important objective within CRM. Retailers always look for key Event Triggers such as birthday, anniversary, festival etc. These are closely linked to the customers and prompt them to make purchases. Its leadership sees great value in creating positive surprises.

To celebrate summer and National Ice Cream Month, Starbucks offered one million free cups of ice cream at 6,000 Starbuck locations for an unadvertised "ice cream social".

5. *Implementation of CRM Programmes* As discussed earlier, the CRM is a holistic approach. Though technology is an important aspect, but it does not mean the complete replacement of people element. Upward revisions in Customer Loyalty Programmes are crucial. The motive of every CRM is to earn the loyalty of the customers which is required for success of the retailer. One of the most popular approaches is to make customers feel proud about their association with the store on a continuous basis; they enjoy special status and come first with the retailer. There should be continuous upgradation of the customers in order to help them to move to the higher levels.

Maintenance of loyalty programmes entails a lot of cost to the retailer in the form of maintenance, discounts, advertisements etc.

Critical Success Factors in Implementation of CRM Programme The various crucial elements which should better be integral parts of any CRM programme and processes are as follows:

Comprehensive Customer Centric Approach Effective CRM needs comprehensive approach, so only product-centric view is not sufficient, it needs customer-centric culture and processes, co-ordination of both front and back-office activities.

Retailers should try to develop an end-to-end process across sales and customer services.

Continuous Benchmarking of CRM Processes and Services It is important to maintain differentiation and positioning of the store in the eyes of the customers.

Motivation of Employees In certain organisations, employees are paid salaries plus bonuses, not commissions; bonuses are based on customers' service experience.

Management Support Strong management support, training of people in the retailer's organisation is crucial to create customer centric culture.

Use of IT IT systems are key enablers of CRM programmes such as data mining.

Need-based Segmentation of Customers The realistic need-based segmentation of customers is required.

Mapping the Processes The mapping of processes as per customer's perspective while interacting with the retailer helps to identify the points where integration is required.

Effective Customer Services As the CRM is basically about many intangible and non-transactional benefits, the role of services is very important.

Compliant Handling Mechanism Effective complaint handling mechanism should be in place. Many organisations have set up their own call centres (Captive Call Centres) or outsourced this function. Almost all the operators in mobile telephony have their customer care centres. Sometimes, the business opportunities are also generated during the compliant handling process.

CRM initiatives often fail because implementation was limited to software installation without providing the appropriate motivations for employees to learn, provide input and take full advantage of the information systems.

6. Evaluation of Performance To evaluate the performance of CRM programmes, reports are generated, which are based on: spends, products, styles, SKUs, price point analysis, brand ranking, catchment area analysis, top spenders, inactive list, market basket, cash memo analysis and campaign analysis. These reports identify movement of members from one RFM cluster to another, as well as track quarter by quarter response.

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■●■ Customer Services

Retail is basically a trading activity and a service activity. As per definition given by Lovelock, "Customer Service is task, other than proactive selling, that involves interactions with the customers by telecommunications, mail or automated processes. It is designed, performed and communicated with two goals in mind: operational productivity and customer satisfaction".

Levels of Customer Services

Broadly, there are three levels of retail service in case of merchandise retailers.

- **1. Self-Service** Sometimes also termed as **Do It Yourself** (DIY). It is mostly prevalent in supermarkets and hypermarkets. Most of the times, shoppers expect lower pricing in lieu of self-service. Vending machine is perhaps the best example of self-service format.
- **2. Assorted Services** The retailers offer some level of service to consumers. Service includes active product selection assistance and many other facilities etc. Examples are departmental stores.
- **3. Full Service** The retailer attempts to handle nearly all aspects relating to purchase, delivery and after sales services. Retailers that follow a premium price strategy often offer full-services to shoppers to maximise customer value and shopping experience. Generally speciality stores dealing with technological and high value of purchase offer full services.

There can be range of services, on the continuum of service mix from pure product to pure service.

Pure Product: Staple goods such as salt, sugar.

Product with Some Services: Technological products such as cars. Sale is to be supported by delivery, warranties and after sales service.

Combination: The service and product are important in equal proportion such as food at a restaurant.

Service with some products: E.g., guest at a hotel is provided with certain goods also such as toilletries, some snack items, complimentary drinks.

Pure Service: Such as tax consultants, counselling.

In this chapter, the scope of customer service covers product with some services, combination and service with some products.

Exhibit 16.9

Main Services offered by Retailers

The variety of services offered to customers depends upon the ingenuity of the retailer. The most common services provided by the retailer are given as under:

- Display of merchandise
- Alterations of apparel merchandise
- Acceptance of Credit cards
- Car Parking
- Credit Facility
- Shopping Carts
- Gift Wrapping
- Demonstration of to use the merchandise
- Repairs and Warranties

Importance of Customer Services

They provide time and place utility to the shoppers. They are the integral part of retailer's overall offer. Assuming that other factors are common, providing customers services better than those of competitors; is the most effective way to build up the customer loyalty. They enhance the value of the product. These are directly linked with the **customer's overall experience** with the retailer's organisation.

Retailing has passed through different phases. For a long time, it was assumed that it is sufficient to have product quality and pricing as the main differentiators. The sales force was considered to be main service provider, but now the perception has undergone deep change. All employees, whether working at the front end or back end contribute towards the enhancing 'service' element of the retailer's offer. Technology alongwith layout and design also contribute towards customer experience.

Croma's USP lies in "we help you buy" philosophy of customer service. Its sales staff is extensively trained which impart indepth knowledge of products and brands available at stores, thereby allowing them to provide right type of guidance to customers at store.

Quality in Services and Performance Gaps

Service element is directly linked to the experience of the shopper. It is really a challenging task to develop parameters of the expected service quality by the customer. Providing high quality service is also a equally or more challenging task for retailers. Good service keeps shoppers coming back to a retailer and over a period, a retailer can build up even distinct competitive advantage through the services.

Retailers may be using same automated processes to deliver services but they may still enjoy different quality perceptions among customers. For example, the public sector banks may be deploying the same technology as used by private sector banks, but private sector banks enjoy better reputation in terms of quality of services. Interpersonal communication has always been important component of customer services.

Thus, deciding about the quality of service parameters have become a more challenging task as it is intangible also. The customer's expectation of quality varies from one retail format to another. While shopping, the same customer may expect more and better services at a department store in comparison to a supermarket.

Service quality is dependent upon the comparison of customer expectation of service at the store and perception about actual performance of service. If the perceived quality of service is higher than expectation, then the customer will be satisfied and vice versa. So based upon benchmarking to manage service quality is disconfirmation model. It is also termed as **SERVQUAL**, the concept given by Parasuraman, Zeithmal and Berry. There are five types of GAP across service industry. Here, they have been explained in the context of retailing:

Knowledge Gap It is the gap between customer's expectations and retailer's perception about the customer's expectations. A speciality retailer gives instructions to its sales staff to provide customer personalised services, which the retailer feels that every customer requires. But when the salesperson helps customers in the merchandise selection process, the customer takes that as unwanted interference or unsolicited advice.

This gap can be minimised by gaining knowledge about customers:

- Conducting research about customer perceptions and expectations
 - getting information through questionnaires filled by customers
 - Interacting with the customers
- Analysing Customer complaints
- Feedback from sales force

Fundamentals of Retailing

Standards Gap It is the gap between retailer's perception about quality of services and specification of service quality parameters. The department store retailer knows that **one-to-one** interaction is important but not very sure about how many sales personnel should exactly be manning the store. This gap can be minimised by:

- Commitment to provide and continuously upgrade the service standards as per competition
- Developing solutions to customer problems using innovation and with the help of technology
- Specifying service goals, conveying them to the store personnel
- Measuring service performance

Delivery Gap It is the gap between service quality specification and service delivery. The quality parameters are well-defined by the retailer to ensure customised one to one interaction with the customer, but the sales personnel is not polite with the customers to the desired degree.

The delivery gap can be minimised by taking following measures:

- Training of store employees including backend people
- Improving internal communication and motivating employees
- Empowering employees to take decisions to solve customer problems

Communication Gap It is the gap between service delivery and retailer's communication about service quality. A department store conveys image of theatrical ambience and personalised services in the TV, print media advertisements, but the actual scenario is different. This gap can be minimised by adopting following measures:

- Making realistic commitments
- Managing customer expectation within feasible range of the retailer

Service Gap This is gap between perceived service and expected service. It may happen due to the one or more of the gaps discussed earlier. When the flight is delayed beyond a unexpected period of time, the customer may assume that it is due to ignorance by the ground staff or "they never tell us anything" attitude.

The various gaps can be ascertained with the help of questionnaires which are duly filled by the customers, face to face interaction with the customer, suggestion boxes etc. The management can identify problem areas and take corrective action.

On the basis of the study of GAPS Model, the following components of service quality have been identified. These are abbreviated as **RATER**: Reliability, Assurance, Tangibility, Empathy, Responsiveness.

Reliability It is the ability to perform the promised service in a dependable and accurate manner.

- **2. Assurance** It includes competence, courtesy, credibility and secure store environment. It is knowledge and courtesy of employees and their ability to inspire trust and confidence.
- **3. Tangibles** It is about physical facilities, layout, appearance of personnel.
- **4. Empathy** It includes access, communication, understanding the customer. It is caring and individualised attention that the retailer provides to the shoppers.
- **5.** Responsiveness It is willingness to help customers and provide prompt service.

As discussed in the first chapter, intangibility, inseparability, inconsistency are the main features of services, so many gaps are inbuilt in the nature of services. The real damage is not only the financial loss due to failure of service, but the adverse reaction from the customers. This can result into negative world of mouth advertisement. So before anything negative such as loss of customers happens, fixing up of the problem is vital and situation is handled in satisfactory manner. The damage control is termed as **service recovery**. The store people should be properly trained for it.

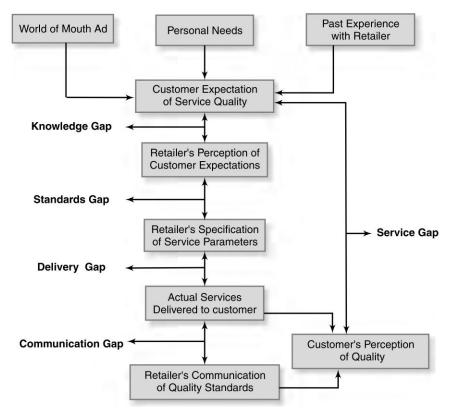


Exhibit 16.10 Types of Gaps in SERVQUAL

Few more examples of Customer Loyalty Programmes in context of India have been discussed below:

MTNL Loyalty Programme: MTNL, a major telecom operator in Delhi and Mumbai, has launched scheme to reward its loyal customers with bonus points which can be redeemed for attractive gifts. The company gives points for loyalty, usage, early payment of bills and for using unified services. Customers accumulating 5,50 points and 1100 points are entitled for Virtual Credit Cards of Rs 108 and Rs 216 respectively. For a customer accumulating 2700 points are VCC of Rs 540 or an Internet account of 100 hours. Still higher benefits are offered to customers accumulating more points. A customer accumulating 10,000 points, a customer gets a cordless and customer line identification phone. For 25,000 points, the customer gets a CDMA connection. Benefits in terms of points are offered for timely payment of bills.

Customers who have been subscriber of MTNL services for more than five years will get a bonus of 125 points. Recommending a MTNL connection to any new subscriber earns 50 points. A customer making 1,300 calls is entitled for 100 points and through higher usage 1,750 points can be earned. Through these schemes MTNL expect higher revenues and better retention of customers.

PVR, an entertainment industry major operating a chain of multiplex theatres across country, also offers membership for its various loyalty schemes such as PVR club, PVR Class Club, Kids Club. The various benefits offered are facility to buy tickets online, subscription to weekly PVR, movie charts participation in exciting contests, to name a few.

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[Summary]———

- ➤ Customer retention is the next big challenge before retailer after customer acquisition and development. It has many dimensions such as customer loyalty and customer relationship management. Customer loyalty expects repeat purchase behaviour from the customer. The loyalty can be emotional, price and monopoly. It has got various stages starting with being prospect, purchaser, client, supporter, advocate and truly loyal customer.
- > CRM is the comprehensive approach to develop relationships with the customers. The loyalty and CRM have become sort of compulsion due for retailers due to hyper-competition in the market and low product differentiation. The various benefits are in the form of higher profitability, better customer satisfaction, greater employee productivity, information for micromarketing etc.
- > CRM as a process consists of six main steps, with technology plays vital role in all the steps. First step is acquiring and maintaining customer base. It includes developing data warehouses, identification of information.
- ➤ The second step is analysing the customer data and identifying target customers. It includes data mining and market basket analysis. Third step is about identification of target customers which includes concepts such as Lifetime Value, RFM analysis, developing customer pyramids and customer segmentation.
- ➤ The fourth step deals with developing CRM programmes. Customised services and customer complaint handling mechanism are the hallmarks of this stage. Fifth and sixth steps are about implementation and evaluation of CRM programmes.
- ➤ Customer services, part of overall product offering, operate at many levels such as self-service, assorted service and full service. The concept of SERVQUAL gives a comprehensive idea about the performance gaps in the delivery of services. The performance gaps have been discussed under five categories—Knowledge gap, Standards gap, Delivery gap, Communication gap and Service gap.

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-{Revision Exercises}

■ ■ Very Short Answer Questions

- 1. What do you mean by Customer Retention?
- 2. What do you understand by Customer Loyalty? What are its main dimensions?
- 3. What is Customer Relationship Management?
- 4. What is SERVOUAL?
- 5. Differentiate between Transactional and Non-Transactional benefits.
- 6. What is Eventdriven Marketing in context of CRM? Give two examples from your immidiate context.
- 7. What is Customer Pyramid?
- 8. What are the different levels of customer service?

Short Answer Questions

- 9. Discuss the concept of Lifetime Value. How is it beneficial to the retailer?
- 10. What is Market Based Analysis?
- 11. What is RFM?
- 12. What are the performance gaps in the context of customer services?
- 13. What is the significance of customer services?
- 14. What are the coalition loyalty programmes?
- 15. What are customised services? What kind of retail formats are likely to adopt the concept of customised services?

■ ■ Long Answer Questions

- 16. What is the role of technology in case of CRM programmes?
- 17. Discuss the process of CRM.
- 18. What are the main factors supporting adoption of CRM programmes? What are the main benefits of CRM to the retailer? Should it be just taken as a cost?





Customer Value*

^{*}This case was prepared by the author of the book for the sole purpose of aiding teaching and class discussion. This case is not meant to serve as an endorsement or a source of data or illustration of effective or ineffective management practices.

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■●■ Wal-Mart and Future Group—Adding Value is an Incessant Endeavour

What does Wal-Mart, the largest retailer in the world, do to offer value to the customers? The ensuing discussion will develop some understanding about it. 'Save Money, Live Better' has been the company's mantra of success since its inception. It gets impetus with providing solutions to every area affecting customers. Recently when the people were facing economic hardship across the world due to high inflation, Sam's Club kept on offering certain food items at huge discount price while ensuring quality. For example, some barbecued food items are available at a fraction of market or restaurant prices. "All you need to do is to take it home, heat it and eat or serve."

The company has extended "providing solution" approach to many other areas affecting customer lives. Though Wal-Mart supercentres offer almost all types of merchandise like food items, apparels, pet shops, books, music, garden centres, etc.; they also sell gasolines and have local bank branches. They continuously endeavour to go beyond the "one store shopping" experience, you can get your oil changed while shopping, also avail services of hairstylist, enjoy lunch, get a portrait taken or even get eyes checked all under one roof. Certain stores provide bike repairing facility.

In USA, where cost of healthcare is an important issue, the company is offering prescription scheme for some drugs not affordable by the poor. The prices of these drugs may be two to three times higher in the market. Again, as the dental treatment is costly, the company ensures that customers do not have to go to dentist for various issues like whitening of teeth. Certain health packages are available within the stores.

The company through its 'online' facility enables people to buy products which are not available at Wal-Mart stores but at other stores. The company also launched "**Trade in and Recycle**" programme where you can trade in your old electronic equipment like iPods and get money for it. This also takes care of dumping old electronic equipment, which is a big issue in USA. Wal-Mart approach for offering innovative solutions is largely dependent upon its ability to connect with customers at a emotional level and empathise with their needs. Says one top official of the company "Instead of just providing merchandise to our members, we are providing solutions to their businesses and lives". The company is trying to reach out to the different needs of customers in an innovative manner. Its core strength lies in integrated supply chain management. It has partnered with network of suppliers throughout the world to offer value to the customers.

India's Wal-Mart in Making

On the other hand, in India, where modern retail is comparatively a new concept, we can see through example of Future Group, how Indian retailers are also offering value to consumers in their own innovative ways. Future Group is sometimes termed as 'Indian Wal-Mart in Making'. The company launched its first brand, Pantaloons, in readymade garments. The group has presence in various product lines through different retail formats. The company went for manufacturing of certain brands in the following years.

In August 1997, it opened its own stores to market these brands. In 2001, the company made forays into Big Bazaar concept. Like many international players, it is trying to exploit economies of scale to the extent possible whether it is about procuring merchandise supplies, negotiating rentals or adopting technologies. Future Group usually ties up with manufacturers to bring down the selling price of merchandise on the basis of picking up at least minimum stock. The example is its tie up with Arvind brands. Now, many mall developers in India are ready to provide furnished space at an economical cost. The Future Group has tried to derive benefit from this situation. It usually functions as anchor stores where the rentals can be lower by 30% or even more.

Here, we are focussing on the example of Food Bazaar. Future Group has implemented 'Farm to Plate' through its Food Bazaar, started in June 2002, to provide highly prized freshness in its food articles. Food Bazaar started within the Big Bazaars. Group has started many store brands to offer more value to the customers. For example, the store was selling its own private labels which in certain cases cost approximately 35–40% cheaper than the rival manufacturers brands.

While many Indian retailers are focusing to develop cold storage facilities to keep the freshness intact, Food Bazaar has tried to provide food articles from farms located near to its stores. Group has no problems in working with traditional supply chain partners as long as they are offering value to the customers. Few innovative value added services have been made available at few of the stores. These include:

Live chakki: The customers have the option of buying fresh wheat and get it grinded in the store itself. *Fresh Juice counter:* To provide fresh juices to customers.

Fresh dairy products: To provide fresh milk, and milk products from dairy farms.

Live kitchen: Customers can buy vegetables, get them chopped and cooked, fully or partially. Soups, salads and sandwiches are also available.

Food Bazaar is making transition from a just being a grocery retailer to develop emotional bonding with shoppers. Thus, we can see that how retailers across geographies offer value to customers as per their needs and preferences.



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[Questions]

- 1. How does Wal-Mart offer solutions to customers' problems?
- 2. How is Future Group trying to build up relationships with the customers?
- 3. What kind of similarity do you see between the approaches adopted by Wal-Mart and Future Group in their respective markets?



Retailing Services*

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■●■ Convenience—Suvidhaa Infoserve Way

Suvidhaa Infoserve, an initiative backed by the Shapoorji Pallonji Group, plans to provide Indian consumers a variety of important consumer services on a single platform. Suvidhaa Infoserve sources describe this business as **S-commerce**. It has immense potential and, it works well both for consumers and service providers. It can open a plethora of opportunities for the people in the society.

The Mumbai-based organisation has a solution for many problems relating to journey, telecom, entertainment, finance, education, telemedicine, e-governance, lifetyle and payment collection along with host of other services. Few of the services are payment of utility bills, buying journey tickets, recharging mobiles, sending gifts. Suvidhaa has chalked out a roadmap to expand its bouquet of services so that the customers can access its kiosks to buy many health, motor and other over-the-counter insurance products. It is likely to partner with Kirana Stores, mobile stores, medical stores, STD booths, cyber cafes and travel agencies among others to extend its services.

Suvidhaa kiosks are already collecting IPO subscription forms; applicants need not go to banks for submitting them. Going forward, company plans to distribute mutual fund products and has already registered itself with twenty players for the same.

Suvidhaa Infoserve is also partnering the government to set up kiosks in rural areas where it would offer services such as tele-medicine and other rural-based services.

These initiatives intend to allow customers to avail themselves of any service across any sector at single-window access points in a unique click-and-mortar set up. The company plans to launch its services on a franchisee model for consumers across 20 cities to start with; aims to have a pan-India presence across at least 50 cities by the second year and 75 cities by the third year. The company plans to operate the following three-tier network to distribute its services:

Format/Levels of operation	Location/Area	Number of stores in Ist year	Projected number of stores in the IIIrd year
Tier I Suvidhaa flagship stores	Select locations, up to 500 sq ft	500	3,000
Tier II Suvidhaa points	Franchise to convenience stores	10,000	1,00,000
Tier III Suvidhaa corporate accounts	Company location/shop-in- corporate	2,000	25,000

Also, by the end of the third year of operations, the company expects to provide direct employment to around three lakh people.

Suvidhaa stores provide a single counter for multiple services on payment of cash. Convenience is the key word in Suvidhaa's business model (Suvidhaa its literal translation of convenience into Hindi). Realising that neighbourhood stores are where most Indians still prefer to shop, the company has chosen to target such outlets. So, a local kirana store or a mobile phone outlet can enroll as a Suvidhaa franchisee simply by installing a computer with a broadband internet connection and a printer.

Through its neighbourhood outlets launched in August 2007, Suvidhaa Infoserve aims to become the 'services supermarket' for Indians, particularly for those who are not comfortable at using credit or debit cards online. As per company officials, the low penetration level of internet throws can give desired impetus to the concept. "Only 5% of Indians transact on the web, and many of them are afraid of using their credit or debit cards online. This means 95% of people haven't got the benefit of the technology revolution that has taken place".

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The benefits are plenty for retailers—an additional source of revenue, new walk-ins, and an entry into the fast growing services space. For many small retailers, this can also serve as a hedge against the onslaught of large modern retail chains. Suvidhaa rides on the opportunity thrown up by the technology and services boom. And with time at a premium resource for most of individuals, services intermediation has emerged as highly remunerative business. While commissions start at Rs 3 for a utility bill payment, they go up to as much as Rs 250 for an airline ticket. And depending on the location and the type of outlet, Kirana Stores, PCOs, real estate agents and beauty parlours, the mix of services being accessed, varies. Here, the example of the Suvidhaa counter run by a hot tea stall owner outside Varanasi's BHU campus can be cited. The person makes a decent earning through mobile recharges and booking railway tickets for students heading to their home towns.

Private life insurer ICICI Prudential has entered into an agreement with Suvidha Infoserve Pvt Ltd by means of which the policy-holder can pay his premium by handing over the amount and his policy number to the store owner, who will punch in the details and amount at the kiosk and generate a payment receipt of the transaction.

Suvidhaa's distribution network is based on the FMCG business with dedicated distributors who appoint the service retailers in their assigned areas. Retailers are required to maintain a deposit of Rs 15,000 as 'working capital limit' with their distributor who, in turn, maintains Rs 3 lakh with the company.

However, to make the service responsive in real time across 3,000 outlets in 125 cities in near future, a robust IT infrastructure has been the cornerstone. According to company sources "It isn't as easy as it seems. There are challenges on getting the transaction right each time, if you consider the number of service providers and the backend integration as well as the tax issues relating to each." That makes the job even tougher with skills required to manage the IT systems based on the Microsoft platform with Oracle's database management software, and MS Biztalk 2006 web services middle ware. The web services software is faster than an internet connection, and therefore speeds up access to service providers such as the Indian Railways' IRCTC system.

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[Questions]

- 1. Discuss about four Ps of marketing in context of Suvidhaa Infoserve?
- 2. Try to identify the business model of Suvidha Infoserve. What challenges may the Suvidha Infoserve have to face during implementation of its business model?
- 3. What are the chances of success of Suvidha Infoserve in view of the Indian market conditions?
- 4. How is the technology helping in the whole business process?



Promotional Mix in Retailing*

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Fundamentals of Retailing

■●■ Globus on Way to Define Fashion Statements through its Stores

Launched in January 1998, Globus, part of the Rajan Raheja Group, a major fashion apparel retail chain and which has devoted a good part of its history in developing its sourcing and designing backbone, is now ready to expand front-end retail operations. The company opened its first store in 1999 at Indore, followed by the launch of its second store in Chennai (T Nagar), and third also in Chennai (Adyar). The flagship store in Mumbai was opened on 1st November 2001, followed by a upscale new outlet in New Delhi at South Extension II. Over a span of few years, the Globus made its presence felt across Bangaluru, Ghaziabad, Thane, Kanpur, Ahmedabad, Lucknow, Ludhiana and many other cities. As of May 2008, the fashion retailer opened its 24th store in Nagpur. Being in expansion mode, it has plans to set up 130 to 135 new stores in 70 cities across the country. The proposed expansion envisages an investment outlay of Rs. 800 crores. While, 35 of the proposed 130 plus new stores are to be set up in metros and Tier I cities, 70 of them have been planned to come up in Tier II cities (8,000 to 10,000 sq ft each). Rest 25 to 30 stores will be set up in smaller (Tier III) towns (6,000 to 8,000 sq ft each).

Globus is on a mission to take fashion to deeper levels and in that process, to become the symbol of youth fashion in India. It aims to create connections with the Indian youth through exciting product design, providing excellent store experiences; and by adopting persuasive marketing techniques. Its entire fashion range comprises of apparel for men, women, kids, and accessories at amazing prices. It offers a wide range like work wear, campus wear, club and lounge dressing and genres Western, Indian and mix-n-match.

As numerous designs and fabrics go in and go out of fashion every season, this lifestyle chain retailer does not compromise on market research. "Its focus has always been on understanding the psyche of the youth—we look at what would surprise them and make them happy when they shop at Globus and find ways to attract them back to the store" says a spokesman.

Globus Design Hub

Globus Design Hub is the creative workplace of the fashion retailer. As part of the strategy for being established as a leading fashion apparel brand for young men and women, it has made investments in a studio in Mumbai. Over 50 talented designers and product specialists forecast international fashion trends and create the latest and trendiest merchandise which is exclusively available under the brands **Globus** and **F21** at their fashion stores. Globus is a complete fashion brand. It is the apparel brand as well as the destination brand. Three words—vibrant, individualistic and expressive—which encapsulate the spirit of the youth are associated with Globus.

Eye catching fashion **F21** is an accessible hi-fashion brand, offering high-quality apparel. It is designed to appeal to more innovative consumers who seek cutting-edge fashion. Styling and fabric innovations help F21 offer high-end fashion at prices which are affordable for the young consumers. It offers a wide range in daily casual occasions to clubwear and automatically drives the attention of customers. It has also plans to become a formidable player in fashion footwear and lingerie.

Globus, earlier promoted by Soha Ali Khan, has Kareena Kapoor, as its new Brand Ambassador. She has a sense of style, charisma, attitude and above all a pan-India appeal. Kareena Kapoor is excited about the assignment, "I am delighted to be the face of Globus. I love the trendy hip fashion from Globus which is as good as anywhere in the world. I look forward to spread this new language of fashion across the nation."

With a view to optimise its existing brick and mortar model, the group decided to launch an e-commerce portal with the prime motive of providing information to the prospective customers. Apart

from promoting its brand, the new initiative will also help generate some sales. Globus extensively use all kinds of media to communicate its message effectively. These means of communication include newspapers, hoardings, radio, television, magazines and other promotional activities that are implemented from time to time in all the stores.

As Globus caters to the youth segment, its pricing has always been reasonable. It is redefining the trends of discount and sale by offering much more than a nominal or a heavy discount to the shoppers. Globus kick-started a promotional campaign 'Fashion Remixed'. Under this promo, customers purchasing more than Rs 1,500 can get free grooming tips from Dr Batra's, Bausch and Lomb, and Oriflame. The former conducted recently at Globus retail stores in the country was very successful.

Globus also organises Rampage, a fashion show, to showcase the chain's latest apparel range. When it comes to fashion denims, the youth looks for comfort and attractiveness, says a Globus store manager. "Lee, Wrangler and MTV jeans with sand-blasts and brushed tints are the fast-selling apparel", said a top company official.

In its loyalty programmes, members are rewarded immediately for purchases at any of the Globus stores in addition to a host of other privileges such as exclusive tie-ups, promotions and special shopping hours. Globus offers two different card categories, each with its own benefits. A shopper gets a Globus Privilege card on purchase of merchandise worth over Rs 2,000 and a Globus Gold card membership on purchases worth Rs 15,000.

Discount offers and privileges at other leading outlets also can be availed of as a part of the benefits of tie-ups. Some promotional offers include free holiday package of two nights and three days on purchase of goods worth Rs 5000 and, a four-night and five-day free holiday package on the purchase of Rs 10,000 and above. For the above offers, where free stay extends to a couple and a child below two years, 22 national and 4 international destinations are up for grabs.

Globus also actively participates in promotional tie-ups with the colleges for various events throughout the year. The mega store is also exploring the idea of using music channels in the near future.



- 1. www.globus.in
- 2. The Hindu Business Line, dated September 9, 2004
- 3. Indiaretailbiz.com

-[Questions]

- 1. What are the main sales promotion methods adopted by the Globus?
- 2. Identify the main features of the target audience of Globus. What additional methods do you suggest to reach out the target audience?
- 3. In what ways can the promotional tools of an apparel retailer be different from those of a food and grocery retailer?



Discount Format*

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■●■ Sticking to Basics so as to Remain Competitive all the Times

Wal-Mart, Costco, K-Mart, Target, Carrefour, Subhiksha, Reliance Mart, Spencer in Mumbai, Dollar Store, Sankalp Retail Value, RPG's Giant across India and other parts of world have one thing in common – they sell their product at a discount. Some of them may be soft discounters and some are hard discounters. Around 60 % of retail trade is happening through discount formats.

In 2008 when the rate of inflation was very high, the timing could not have been better for discount formats to prove their mettle and expand. In fact, great depression of late 1920's and early 1930's threw open challenges to retailers and the result was development of discount cult, which continued its spread through 1950's and 60's. Further, economic hardship faced by people during oil crisis of 1970's made sure that discount stores could only look up in popularity.

Right now the FDI is not allowed in multi-brand retail, so the progress in discount stores had been slow. Taking clue from their western counterparts, many retailers in India made forays into discount format in their own way. Here, we are specifically taking the example of Margin Free which originated in Kerala.

Kerala is the most literate society in India; standing very high on social parameters. The customers are value conscious. The towns in Kerala are booming, growing faster and faster, and customers are flush with money, thanks to cash inflows coming in from the gulf, but there are still very few organised retailers in the state. We have to go into detail to find out the reasons behind.

Margin Free Supermarket chain is being operated by the Consumer Protection and Guidance Society, registered way back in 1993. Today, it has emerged as one of the most successful supermarket chain with more than 250 stores. Kerala is basically a consumer society and has to be dependent upon other states for its varied needs. Due to a large number of intermediaries involved and transportation costs, the prices are high and there is a wide fluctuation in prices of groceries, fruits and vegetables. In case of Margin Free, groceries and FMCG goods are brought directly from the production units of the neighbouring states. In the process of direct purchase from farmers and manufactures, intermediaries are removed and a part of the margin or 'profits' earned is disbursed among the consumers. Margin Free stores deal in the entire gamut of goods required by a home for its monthly consumption, viz., grocery, fruits and vegetables, consumer goods and household articles.

Margin Free is very conscious about its pricing decisions. It has implemented a software for pricing the product at all of its stores. It keeps the margins low. Its franchisee model is seasonably successful. It has plans to upgrade and integrate its supply chain which will help it manage the growth further.

Margin Free generally avails credit for 20-22 days on an average from its vendors and able to sell off the goods in 10 days. Thus, it is able to earn a notional interest on its sales. This strategy has made company cash rich which strengthens its bargaining position with other vendors. It finances its further expansion. Margin Free uses its customer base as a bargaining power to strike discount deals.

Any person who is willing to set up a Margin Free store has to buy certain shares of the main Margin Free holding company. Margin Free has a very large consumer base and it issues consumer cards at a nominal price. Customers can avail of discounts on bulk purchases by using this card.

The company has introduced private labels for selling many of its generic products like rice and sugar to begin with. This will help in enhancing consumer value and brand building. Margin Free outlets are typical discount stores, offering one-stop-shop convenience and self-service facility with significant discount to its customers. Going by the number of outlets and footfalls, it has already beaten competition by a handsome margin. The chain has big plans for hyper market format. The society is exploring the financing options for implementing hypermarket concept.

Fundamentals of Retailing

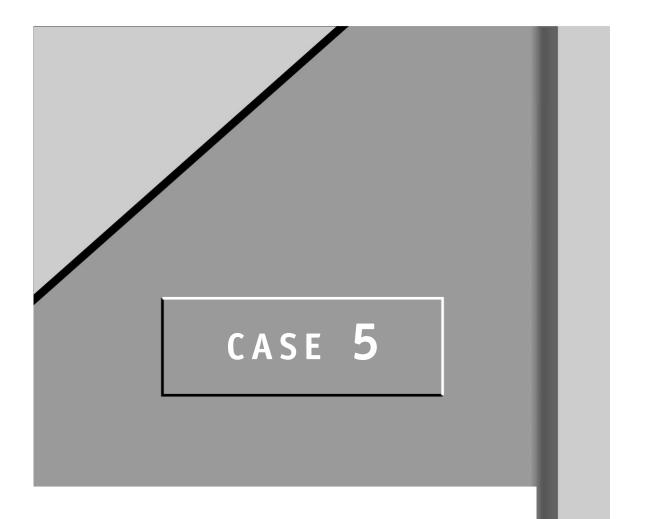
The hypermarkets is to offer food products, textiles, cosmetics, consumer durables and much more. The society would like to brand its hypermarket as Margin Free to encash the trust build up over a period of time. Every month, Margin Free is opening around 12 stores. The chain has spread to literally all parts of Kerala. It has expansion plans for Karnataka, Tamil Naidu and Andhra Pardesh.

[References]

- 1. www.indiastudychannel.com accessed on December 26, 2008
- 2. BusinessLine April 06, 2002

[Questions]

- 1. Identify the different features of retail format of Margin Free.
- 2. Discuss the role of pricing strategy in the success of Margin Free.
- 3. Analyse various factors which have enabled Margin Free to sustain its present pricing strategy.
- 4. How do you see the future prospects of the Margin Free? What changes may take place in future?



Opportunities in Indian Retail Market*

^{*}This case was prepared by the author of the book for the sole purpose of aiding teaching and class discussion. This case is not meant to serve as an endorsement or a source of data or illustration of effective or ineffective management practices.

■●■ Moving Ahead to Realise Retail Aspirations

A US \$28 billion corporation, Aditya Birla Group, is a member of Fortune 500 league. It gets strength from a motivated and empowered workforce of 100,000 people, belonging to 25 different nationalities. In India, the Group has been demarcated as "The Best Employer in India and among the Top 20 in Asia" by the Hewitt-Economic Times and Wall Street Journal Study in 2007. Over 50 per cent of its revenues are being generated from its overseas operations, spread over 25 countries. It is well diversified conglomerate with interests in textiles, metals, cement, fertilisers, mobile telephony, BPOs, life insurance to name a few. It has big plans to become a formidable player in the Indian retail market, which is being described as another sunrise sector of Indian economy. This aspiration is natural also, when every formidable organisation is trying to get closer to the customers.

During last few years, there have been many instances of forward and backward integration with retailers looking for better control over their supply chains and manufacturers always want to be closer to their customers through retail distribution. Examples of Koutons and Raymonds are before us.

Madura Garments, a part of Aditya Birla group and one of the biggest apparel fashion manufacturers in India, wants to make its presence felt in retail arena in significant manner. The strategic shift in company's approach is explicit in the statement of Kumar Managalm Birla about launch of Peter England People, the 15,000-square feet apparel and accessories store "It's a move from being a wholesale garment manufacturer to a retail-led company". Actually, Indian Rayon's new identity Aditya Birla Nuvo signifies the transformation of a manufacturing company into a premium conglomerate with well diversified businesses.

These candid remarks deserve a second look and needs to be analysed further so that an avid learner of retail can actually develop some understanding about it. The company that is pushing this retail initiative in apparel fashion arena is not Aditya Birla Retail, group's recently established retail flagship. It may be surprising to many. But some logic is definitely there.

Madura Garments, branded apparel business division of Aditya Birla Nuvo, apart from its core activities of manufacturing and marketing, is now upping its ante as a front-end retail player. With many popular top league brands—Louis Phillippe, Van Heusen, Allen Solly and Peter England—under its ambit, the company has got all the necessary inputs to play a more aggressive role in the Indian retail success story. As per company top notch sources, it is like venturing into a completely new business. "The disintermediation is happening in order to interface directly with the consumer".

Through its new Peter England People (PEP) venture, Madura wants to get closer to the customers; while simultaneously adding more value. Already, close to 40 per cent of the sales revenues coming through the company's direct retail such as company-owned or company-operated network of stores. Over a period of next three years, company's retail operations will contribute around 70-80 per cent of the sales generated by company's branded apparel. It is quite significant. Three years ago, only 10 per cent of Madura's brands were sold through the direct retail channel, while the rest of revenues came from channel partners—multi-branded outlets, department stores, franchisees and others. Already, the company directly retails apparel through 4.5 lakh square feet while partners account for only 3 lakh square feet.

There is another dimension to this story also. Even the product mix has undergone many changes. Though primarily offering only formal wear, Madura is trying to provide complete wardrobe solutions, including accessories to complement its core apparel offering. This will strengthen the whole apparel retail business of Madura Garments. It will also augment its presence in women's wear where it has already extended the Allen Solly and Van Heusen brands. Youth market segment is also being targeted with renewed vigour. It has aggressive plans for kids-wear range also, Allen Solly brand being extended in this section.

Company has made formidable plans to compete with luxury brands, made-to-measure apparel and so on, aspiring to be the Indian equivalent of high-end retail chains such as Harvey Nichols, Barneys and Lane Crawford.

The plan of action is certainly bigger than "getting closer to the consumer". Globally, apparel retailing majors such as GAP have brands for each customer segment. While, GAP brand caters to the middle segment customers, the company's other brands Old Navy and Banana Republic offer fashion at affordable prices and accessible luxury, respectively.

For Madura, Indian market is lucrative in terms of volumes and profits. Company estimates show that the market for organised apparel retail in India is Rs 49,000 crore at present and is expected to grow to an astounding Rs 1,30,000 crore in the next five years. That's a pie that any business will find hard to ignore.

The future growth in business can not come without retail business. "Being present in the retail space is the only way to grow," as per one of the top executives of the textile and apparel division. In the last financial year, the branded apparel division grew by a healthy 24 per cent to deliver a turnover Rs 1,025 crore. Madura Garments is targeting a turnover of Rs 6,000 crore by FY 2013, of which Peter England People, the new all-family store format, is expected to bring in revenues of Rs 1,300 crore.

But why is there a shift of focus from the traditional apparel retailing channels to creating one of its own? Company executives are the first to deny that they are defocusing on existing channels. Retailers, however, agree that there are solid reasons why companies are starting out on their own. The first reason is the huge margins that organised retail chains expect from manufacturers. "Profit margins in some cases can be as high as 50 per cent," says a retailer.

Large volume brands could find this demand too steep as they play the low-margin high-volume game. That probably explains why brands like Peter England do not find shelf space in organised retail formats such as Westside, Shoppers Stop or Lifestyle. That is the precise reason that these outlets have their private labels.

Turn the margin story the other way, and it unravels a huge business opportunity. If retailers are demanding huge margins and mostly getting away with it, there is a huge incentive for companies to get into retailing themselves. After all, as a company executive agrees, direct retail helps companies in getting an additional 20 percentage points in margins when compared with retailing through partners.

Direct retail also helps companies in overcoming the inherent disadvantages of organised retail chains. A brand such as Allen Solly or Van Heusen, for instance, would get probably 200-500 square feet of display space in an organised format retail store like Lifestyle or Shoppers Stop. In comparison, an Allen Solly exclusive outlet could be around 2,500 square feet and stock the entire range—up to 1,000 stock keeping units (SKUs). PEP store, for instance, stocks 10,000 SKUs.

Another sore point is the discontinuity in the brand experience. The customers always like to get repeated brand experience, its chances increase manifold in case of direct retail. For instance, an Allen Solly women's wear could be in a different level than men's wear in a large retail chain. "Good retailing is like good story telling." When you control the entire chain, the destiny is in your control.

As per one assessment "Company stores deliver a superior experience that translates into value." Formats such as PEP also help brands display a sense of cohesiveness. For instance, the women and kids wear have similar designs—integrated fashion is an international trend.

The final argument in favour of direct retailing relates to customer feedback. It is rightly observed by a company's high official, "In a retail outlet, the consumer votes with cash. Feedback is also more direct compared to the feedback coming from partners that could be filtered". This is especially true in case of fashion retailers.

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It is true that the daily feedback that comes from outlets helps in a deeper understanding of consumer behaviour that results in better product planning and faster turnaround of inventory. Has the company made significant changes based on the feedback received from outlets? Though it is too early to say anything, yet one fact has already set in. It is the retail that is wagging the company. For example, Zara, the biggest fashion retailers in the world have developed intricate mechanism to translate changing trends in fashion into products on almost continuous basis and its own and reliable supply chain helps in that.

It is evident from the above discussion that Aditya Birla Group has been a premier branded garments player in the Indian retail market. Its foray into the food and grocery retail sector began in 2006, when it acquired Trinethra, the south-India based chain of stores. May 2007 witnessed Aditya Birla Retail Limited (ABRL) launching their own brand of stores "more". The retail business of the Aditya Birla Group started with a simple mission, 'to change the way Indians shop', and to achieve this goal, the team started with the understanding of the consumers—their needs, expectations and most importantly identification of areas of dissatisfaction or where some gaps are there. A research study was undertaken across twenty cities, covering large number of consumers, across different age groups and socio-economic classes. What emerged from the study was a clear direction of consumer's expectations from the retailer. Striving to fulfil this growing need of the Indian consumers by offering a solution to the inconvenience, inconsistency and the lack of variety that they experiences in their shopping ritual, the retail promise of the Aditya Birla Group is rightly called "more".

ABRL's vision is to consistently provide all Indian families differentiated and complete shopping experience, as well as to be one of the top two retailers in India while delivering superior value to all stakeholders.

Till the end of July 2008, the company has set up 640 supermarkets and two hypermarkets. All the supermarkets (including the former Trinethra stores) are now branded "more" and the hypermarkets are branded "more" Megastore. The company has around 11,000 employees and has a pan India presence.

Supermarkets have a minimum size of 2,500 sq ft, while hypermarkets are larger with a minimum size of 50,000 sq ft. The stores offer a range of products in processed foods, home and personal care, fruits and vegetables, general merchandise, apparel, consumer durables and IT (CDIT). In addition, many of the stores have a bakery and other shop in shops catering to mobile stores, pharmacy, Indian sweets and many other categories.

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- 1. Business Standard, May 27, 2008
- 2. Company websites accessed on March 17, 2009

-[Questions]

- 1. What can be the most plausible reason that Aditya Birla Group is not bringing its retail businesses under the same umbrella set up?
- 2. Comment upon the company's transformation from a wholesale garment manufacturer into a retailled company.
- 3. How does launch of Peter England People fits into the overall retail plans of Madura Garments?
- 4. Comment upon "more" as a store brand in food and grocery retail.



Supply Chain Management*

^{*}This case was prepared by the author of the book for the sole purpose of aiding teaching and class discussion. This case is not meant to serve as an endorsement or a source of data or a illustration of effective or ineffective management practices.

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■●■ Partnering with Local Suppliers to Cater to Local Palates

McDonald's is a renowned American fast food retailer. Kick-starting Indian operations in 1996, it entered into partnerships with food retailers on regional basis—Vikram Bakshi's Cannaught Restaurants of New Delhi and Amit Jatia's Hardcastle Restaurants for northern and western parts of the country respectively to operate its outlets. Company has adopted localisation of tastes and ingredients in the best possible manner. The company has adopted franchise route in a big way to expand its activities and to have deeper penetration of the market. Indians, as consumers prefer fresh food. This has become the hallmark of McDonald's value delivery process. This is reflected in the product mix, especially designed for Indian Market conditions—McAloo Tikki and Maharaja Mac.

Though India is one of the largest producer of fruit and vegetables, a significant portion of it gets wasted because of poor infrastructural and processing capabilities. The integration between different stages such as pre-harvesting, storage, transportation and post-harvesting is poor. The cost of intermediaries is also prohibiting. Retailers such as McDonald's, has taken many initiatives to replicate its global experience. In a year, Mcdonald's consumes a minimum of 4.6 crore buns, 17 lakh bottles of sauce, 1,200 tonnes of iceberg lettuce, six crore patties and hundreds of tonnes of dairy products and other ingredients.

The company has developed supply chain and cold chain infrastructure with the help of its partners over a period of time so that it would be able to provide desired quality-fresh and nutritive products to its consumers, thus maintaining its image. A cold chain refers to the procurement, warehousing, transportation, and retailing of products under controlled temperature conditions. It needs state of art technology that has been mastered by companies such as McDonald's. Besides, it needs expertise to develop and implement the processes. McDonald's started developing the infrastructure way back in 1992, four years earlier than the actual retail operations.

All the vendors adhere to norms set by government agencies. In addition, the company's quality inspection programmes and Hazard Analysis Critical Control Points (HACCP) systems are also there to ensure quality and safety standards. These operate at various stages of supply chain like farmers to processing plants to restaurants. These are inspected for quality at different stages. The company provides various types of input, technical support and consultancy to its vendors. For example, to ensure that iceberg lettuce should be of specific weight. The relationship between the fresh produce suppliers and company is mutually beneficial. Many local suppliers from small towns are also benefitted from the opportunities thrown open before them.

The company has entered into long term contracts with following organisations:

Radhakrishna Foodland

It has specialised providing whole range of services in procurement, quality inspection, dry and cold storage, inventory management, deliveries, data collection, recording and reporting. It, thus, provides integrated and one stop solution to many of routine distribution management problems of McDonald's. All processed products have a minimum shelf life of 60 days, except for buns and lettuce. Monthly around 800 tonnes of 250 ingredients from 50 suppliers need to be transported. The trucks, specifically designed for the purpose has three levels of refrigeration system. All this helps in lowering the cost for McDonald's. The flexibility is also there to accommodate the varying quantities as per demand of input.

Trikaya Agriculture

It deals with speciality crops like iceburg, lettuce, herbs and many oriental vegetables. It has cooling plant and refrigerated vehicles. The specialised infrastructure offers specialised nursery, drip and sprinkler irrigation system in raised farm beds, pre-cooling room, large cold room, and refrigerated truck. Fresh produce such as lettuce are handled in a more sophisticated manner and is procured from more than one supplier. McDonald's helps in management of crops while they are in the field.

Vista Processed Food

It deals with frozen chicken and vegetable foods, with capability to produce frozen foods as low as minus thirty five degree centigrade. The chicken used is supplied by Coimbatore-based Suguna Poultry. Vista strives to minimise rejections of patties with the help of quality assurance experts to test them for colour, appearance, internal texture and flavour.

Dynamix Diary

McDonald's has partnered with Dynamix Diary for the supply of milk products such as cheese. It has fully automatic international standard processing facilities and has the capability to convert milk into cheese, butter, ghee, skimmed milk powder, baby food and many other milk products.

McCain Foods

It is the world's leading french fries company. It becomes quality and size potatoes for its french fries from India as the solid content of conventional Indian potato varieties is less in comparison to the other parts of the world. The company is helping farmers at selected places such as Deesa and Kheda (both in Gujarat) in agronomy techniques like irrigation, sowing seed treatment, planting methods, fertiliser applications and storage.

Generally, main vendors make further partnership with farmers and other local suppliers to achieve their procurement objectives. Thus, with the help of its partners, McDonald's has been able to deliver consistent quality to its customers. It is prudent to keep the number of vendors to minimum so as maintain consistency of quality, keeping in view of the other factors and choose local suppliers as long as possible. The relationship between McDonald's and its Indian suppliers have been mutually beneficial. The vendors and partners have also been grown with the growth of the company in India. Ten years back, the Radha Krishana Foodlands' distribution centre used to have inventory of around 35 days. Now, that is cut to around 10 days. Its inventory turnarounds have also been multiplied. The system for tracking inventory demand and supply is also in place. The objective is to minimise conversion of raw material into finished products.

The planning behind the supply chain before launching new products into the market is quite intense and done well in advance. With suppliers getting access to latest technology can become international suppliers of McDonald's and others at a later stage.

While McDonald is very successful in India though it was alien to Indian market before 1996, it's way ahead of its competitors like Kentucky Fried Chicken which started its operations at almost the same time. Many Indian food retailers have yet to come out with effective strategies to face competition from McDonald's.

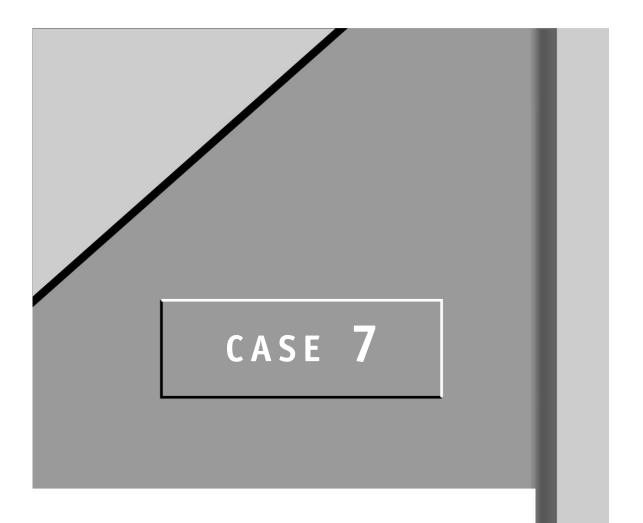
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[Reference]

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[Questions]

- 1. How has the McDonald's been able to cater to the needs of Indian consumers having preference for fresh vegetables?
- 2. McDonalds could have gone for local suppliers near to its outlets instead of sourcing from centralised distribution centres. Compare the two situations.
- 3. How can the Indian food retailers such as Nirula's respond to the competition posed by McDonald's?



Customer Retention Strategies*

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Fundamentals of Retailing

Shopper's Stop Showing the way to others how to Make Customers Stop and Shop at Stores Through Loyalty Programmes

Shopper's Stop Limited set up in 1991 with its flagship store, Shopper's Stop, has now expanded to over 100 retail outlets spreading across 1.1 million square feet of built-up area and covering many retail verticals and formats. Private labels account for a significant per cent of its retail revenues. The company has shown very impressive conversion ratio with converting 27 per cent customer footfalls into transactions.

Shopper's Stop has entered into strategic partnerships with international retailers such as Mothercare Plc of Britain and Leisure and Allied Industries of Australia. It helps in catering to niche markets.

Expansion programmes in the form of Timezone, a leisure and entertainment format, and Brio, the coffee bar located strategically in their Crossword bookstores, are firmly in place. In the ensuing discussion, an attempt has been made to develop understanding about Shopper's Stop CRM programme.

CRM Programmes at Shopper's Stop

Shopper's stop is the pioneer among Indian retailers in introducing the concept of CRM in their stores in the early 1990's. It clearly shows the importance that the company attaches to its regular patrons. Since the company did not have any legacy issues to follow at that time as promoters originally not from retail business, it started with a new perspective and tried to set up its own benchmarks in CRM.

The management at Shopper's Stop hinges on **Paradigm of 1s** ©, which stands for one customer buys one SKU from one square feet in one moment. Availability and consistency of merchandise is also the hallmark of the retailer's approach.

The loyalty programme is structured at three levels:

- Classic Moments
- Silver Edge
- Golden Glow

Customer can become a member of First Citizen by submitting an application form alongwith the requisite fee of Rs 200. During the membership period, membership status depends upon the quantum of purchases made by the customer. A customer is upgraded from 'Classic' to 'Silver' by making a purchase of Rs 10,000. On making a purchase of Rs 40,000, customer is upgraded to Golden. The retailer wants to offer benefits at a faster rate with increase in the shopper's spending and many non-cash benefits are also offered.

Shopper's Stop has a strong database which has been built up over a decade for its First Citizen program. The company has made a lot of investment in IT which is vital for maintaining its database, tracking consumer behaviour or stocking of inventory. On an average, the company intends to make significant investments in IT to maintain the competitive position of retailers and cater to the needs of the customers in a more personalised manner.

The retailer is maintaining a strong backend infrastructure as well as networking. JDA, an ERP software is supporting analytics and data warehousing. It is the backbone of loyalty programme. AS400, in-house software that is running on JDA, tracks the buying patterns of First Citizen customers. The company tried to give a new direction to its CRM initiatives after it acquired a business intelligence software called 'Business Solutions' few years back. The new software helps generate intelligent data from Shopper's Stop customer base of about 2,30,000 at that time. The company would be touching base with customers via direct mailers informing them of all current promotions and also updates them about the upcoming events. Shopper's Stop claims that it has taken its CRM initiatives to a new height

and now calls it's loyalty programmes **Customer Experience Management**. "If we find from the data that a customer had bought a pair of trousers, we tell him about a new range of shirts that we have just brought into our store," says Mr Nagesh,CEO of Shopper's Stop.

With the help of data mining, the Shopper's Stop spotted a trend that customers spend more money on accessories in comparison to basic apparel in the same customer's purchase basket. Retailer decided to offer jewellery and watches as assured gifts against value of purchases.

This increased revenues from First Citizens in a focused manner. Perceptive offers by the retailer have tried to ensure 'transactional' and 'emotional' loyalty. The learning developed through analytics is helpful in micromarketing, overcoming challenges in merchandise and store planning. For example, the company learnt that customers, especially women, prefer to distinguish garment colours in sunlight. In response, the company has an offer—both day and night lighting options to the customers to view and compare the apparel merchandise, just by toggling a switch.

Market Basket Analysis also helped Shopper's Stop to design an offer on these lines "Shop for women's western wear worth Rs 2,500 and get a **Ravlon Gift Hamper** worth Rs 660 free". This offer was designed on the basis of data that showed that buyers of ladies western wear also bought cosmetics. Then retailer communicated with the selected group of buyers whose names were digged out as per their past buying pattern and RFM parameters. The response to this offer was really good, resulting in higher sales.

The most effective retail decisions can be taken by the evaluation of current circumstances. The spends, merchandise, styles, SKUs, analysis of price points, brand ranking, catchment area analysis top spenders, inactive list, market basket, cash memo analysis, etc. Analysis of the movement of members from cluster to another, tracking quarter by quarter response and evaluation of performance of various ongoing promotional campaign also helps. One of the promotional themes 'Party On' was also created from a consumer insight that most people associate the word 'party time' closely with the month of December.

Loyalty Mine is the First Citizen model for loyalty benchmarking and is used to develop insight about store wise and tier wise relationships. The information generated tries to answer the following questions:

- Are we retaining our members more effectively year after year?
- Are we regularly shifting our 'truly loyal' customers across tiers?
- Have we been able to increase spendings of our customers year after year?
- Do we know enough about our customers to sell 'more of the same' and 'more of the new' to them?

The three parameters then lead us to micro-marketing programmes which

- help in setting benchmarks to calculate customer values, customer behaviour.
- are based on RFMs—the members are offered bonus points on birthday and anniversary occasions. It generates good response.
- make personalised and innovative offers to engage customers. During one such promotion, Malayalee First Citizens were sent wishes on the occasion of Onam festival.
- reinforce the brand regularly through periodic updates. A bimonthly magazine 'First Update' for 'First Citizens' is also published to inform them about latest offerings.

As a result of the effective loyalty programmes, the Consumer Satisfaction Index at 63% is really very impressive. This is also reflected through the fact that average purchase amount of First Citizens is almost double that of a normal customer.

Fundamentals of Retailing

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[Questions]

- 1. How is the technology helping Shopper's Stop in its loyalty programmes?
- 2. Please enlist the instances Shopper's Stop making use of insight developed through CRM programmes.
- 3. How does maintenance and upgradation of customer loyalty programmes help Shopper's Stop in micro-marketing?
- 4. Identify the main tools and techniques adopted by the Shopper's Stop to retain its customers.

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