Retail Management

DMGT550

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UNIVERSITY

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RETAIL MANAGEMENT

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Produced & Printed by
EXCEL BOOKS PRIVATE LIMITED
A-45, Naraina, Phase-I,
New Delhi-110028
for
Lovely Professional University
Phagwara

SYLLABUS

Retail Management

Objectives: The objective of the course is to:

- Introduce students with the basic concepts of retail management and the latest developments in retail industry in the Indian context
- Develop knowledge of contemporary retail management issues at the strategic level
- Establish an academic relationship to the above through the application of retailing theory and research

Sr. No.	Topics
1	**Introduction to retailing** : What is retailing, Social and economic significance of retailing, Structure of retailing and distribution, Opportunities in retailing
2	**Types of retailer** : Retailer characteristics, Food retailers, General merchandise retailers, Service retailing, Types of ownership, Retail channels, Benefits offered by retail channels, Challenges of effective multichannel retailing
3	**Retail buying behavior** : The buying process, Types of buying decisions, Social factors influencing the buying process
4	**Retailing strategy** : Retail market strategy, Target market and retail formats, Growth strategies, Global growth opportunities, The strategic retail planning process
5	**Financial strategy and retail locations** : Financial objectives and goals, Strategic profit model, Analysis of financial strength, Setting and measuring performance, Types of locations, Other locations opportunities, Location and retail strategy, Legal considerations, Evaluating specific areas for locations, Evaluating a site for locating a retail store, Trade area characteristics, Estimating potential sales for a store site, Negotiating lease
6	**Human Resource Management :** Objectives of Human Resource Management, Issues in retail human resource, Designing the organization structure for a retail firm, Managing diversity, Legal issues in Human Resource
7	**Merchandise management** : Merchandise management overview, Forecasting sales, Developing an assortment plan, Setting inventory and product availability levels, Establishing a control system for managing inventory, Allocating merchandise to stores, Analyzing merchandise management performance, Developing and sourcing private label merchandise, Negotiating with vendors
8	**Retail pricing and communication mix** : Pricing strategies, Consideration in setting retail prices, Pricing techniques for increasing sales and profits, Legal and ethical pricing issues, Communication programs to develop brand images and build customer loyalty, Methods of communicating with customers, Planning the retail communication program
9	**Store Management** : Store management responsibilities, Recruiting and selecting employees, Motivating and managing store employees, Evaluating store employees and providing feedback, Compensating and rewarding store employees, Store design objectives, Store design elements, Visual merchandising, Creating an appealing store atmosphere, Strategic advantage through customer service, Customer service quality, Service recovery
10	**Information system in retailing** : Creating strategic advantage through supply chain and information system, The flow of information and products in supply chain

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Unit 1: Introduction to Retailing

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Objectives

After studying this unit, you will be able to:

- State the meaning and scope of retailing
- Discuss the functions of retailing/retailer
- Formulate the marketing-retail equation
- Trace the rise of the retailer
- Get an overview of the global retail market
- Understand the perception of retail as a career

Introduction

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

Retailing is the world's largest private sector contributing to 8% of the GDP and it employs one-sixth of the labor force. The estimated retail trade is expected to be 7 trillion US $. Many

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countries have developed only due to retailing and presently we see there is a vast change in the retail industry. As far as India is concerned it contributes to 14% of our GDP and it is the second largest sector next to agriculture which provides employment to more number of persons.

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

1.1 What is Retailing

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

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

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

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

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Caution The term 'retailing' has a wider context and includes several transactions which are several stages removed from sale to the ultimate consumer.

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

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

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

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

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

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

Caselet

Industry Status for Retail Sector?

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

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

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

Source: indianrealitynews.com

Self Assessment

State whether the following statements are true or false:

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

1.2 Functions of Retailing

Retailers are crucial players in the emerging market scenario. Large brands are running first to get into the desired retail formats to cater to the growing middle class of India. Retailers perform various functions like providing assortments, sorting, breaking the bulk, rendering services, bearing risk, serve as a channel of communication, transportation, advertising and holding inventory. They significantly contribute towards increasing the product value and satisfying the consumers. Following are the functions of a retailer/retailing:

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

Example: Kellogg makes breakfast cereals, Knorr makes soups.

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

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

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

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

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

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

6. ***Holding Inventory:*** A major function of retailers is to keep inventory so that products will be available for consumers. Thus, consumers can keep a much smaller inventory of products

at home because they can easily access more from the nearby retailers. Retailer's inventory allows customers instant availability of the products and services.

7. ***Channel of Communication:*** Retailers are the bridge between the manufacturer or his representative and the end customers. They serve as a two-way channel of communication. The manufacturer collects customer choice and preference data and provides information about existing and new products through the retailers. The point of purchase displays provide serve as advertisements that provide information about new products and many times retailers inform the consumers about likely date of availability of a product or entry of variants into the market. The shoppers get a chance to learn about products and services from the stores and even acquire trial habits by seeing others buying a product or service in the store. The manufacturer too collects customer data, data on gaps in demand and supply cycles and customer satisfaction from retail points.

8. ***Transportation:*** Retailers also help in transport and advertising function. The larger assortments are transported from wholesaler's point to retailers point by retailer's own arrangements and many times, the retailer delivers the goods at final consumer's point. So, retailers provide assistance in storage, transportation and prepayment merchandise.

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

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

Self Assessment

Fill in the blanks:

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

1.3 Social and Economic Significance of Retailing

The social and economic significance of retailing is explained under the following heads.

Social Responsibility

Retailers are socially responsible businesses. Corporate social responsibility describes the voluntary actions taken by a company to address the ethical, social, and environmental impacts of its business operations and the concerns of its stakeholders. Retailing figure 1.1 illustrates how retailers provide value to their communities and society, as well as to their customers.

Retail Sales

Retailing affects every facet of life. Just think of how many daily contacts you have with retailers when you eat meals, furnish your apartment, have your car fixed, and buy clothing for a party

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or job interview. American retail sales are over $3.6 Trillion for 2012, but even this sales level underestimates the impact of retailing, because it does not include the retail sales of automobiles and repairs.

Although the majority of retail sales take place within large retail chains, most retailers are small businesses. Of the 1.9 million retail firms in the United States, 95 percent of them run only one store. Less than 1 percent of U.S. retail firms have more than 100 stores.

Employment

Retailing also is one of the nation's largest industries in terms of employment. More than 25 million people were employed in retailing—approximately 18 percent of the non-agricultural U.S. workforce. Between 2004 and 2014, the retail industry expects to add 1.6 million jobs, making it one of the largest sectors for job growth in the United States.

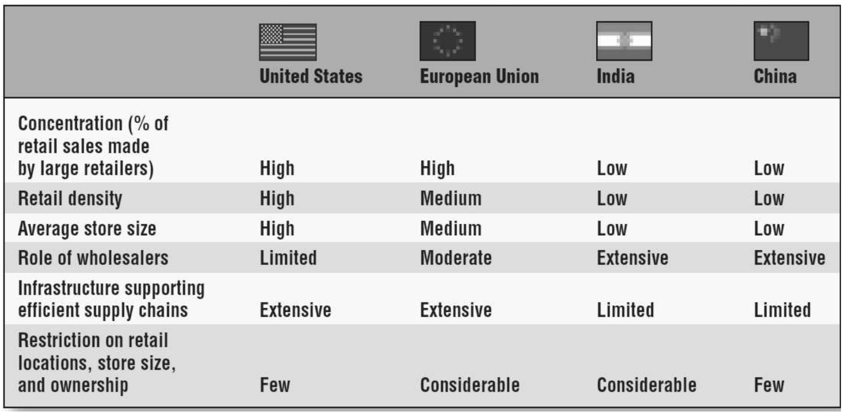
Global Retailers

Retailing is becoming a global industry, as more and more retailers pursue growth by expanding their operations to other countries. The large retail firms are becoming increasingly international in the geographical scope of their operations. Amway, Avon, Ace Hardware, and Inditex (Zara) operate in more than 20 countries. The share of the global retail market accounted for by retailers operating in more than one country also is increasing, because these global retailers are growing at an even faster rate than are global retail sales. International operations account for a larger proportion of sales by these large firms, as is particularly apparent in European firms with their longer internationalization experience. Wal-Mart, Carrefour, Royal Ahold, Metro, and Schwarz each generate more than $25 billion annually in sales from their international operations.

1.4 Nature of Retailing and Distribution Supply Chain

The nature of retailing and distribution supply chains in various areas around the world differs. Some critical differences among the retailing and supply chain systems in the United States, European Union, China, and India are summarized in Figure 1.1.

Figure 1.1: Comparison of Retailing and Supply Chain Across the world



	United States	European Union	India	China
Concentration (% of retail sales made by large retailers)	High	High	Low	Low
Retail density	High	Medium	Low	Low
Average store size	High	Medium	Low	Low
Role of wholesalers	Limited	Moderate	Extensive	Extensive
Infrastructure supporting efficient supply chains	Extensive	Extensive	Limited	Limited
Restriction on retail locations, store size, and ownership	Few	Considerable	Considerable	Few

For example, the U.S. supply chain system has the greatest retail density and the greatest concentration of large retail firms. Many U.S. retail firms are large enough to operate their own warehouses, eliminating the need for wholesalers. And the fastest growing types of U.S. retailers sell through large stores with more than 20,000 square feet. The combination of large stores and large firms results in a very efficient supply chain.

The Chinese and Indian supply chain systems are characterized by small stores operated by relatively small firms and a large independent wholesale industry. To make the daily deliveries to these small retailers efficient, the merchandise often passes through several levels of distributors. In addition, the infrastructure to support retailing, especially the transportation and communication systems, are not as well developed as they are in Western countries. These efficiency differences then mean that a much larger percentage of the Indian and Chinese labor force is employed in supply chains and retailing than is the case in the United States.

The European supply chain system falls between the American and the Chinese and Indian systems on this continuum of efficiency and scale, but the northern, southern, and central parts of Europe should be distinguished. In northern European, retailing is similar to that in the United States, with high concentration levels—in some national markets, 80 percent or more of sales in a sector such as food or home improvements are accounted for by five or fewer firms. Southern European retailing is more fragmented across all sectors. For example, traditional farmers' market retailing remains important in some sectors, operating alongside large "big-box" formats. Some factors that have created these differences in supply chain systems in the major markets include (1) social and political objectives, (2) geography, and (3) market size.

Self Assessment

Fill in the blanks:

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

1.5 Opportunities in Retailing

The opportunities in retailing are discussed below:

1.5.1 Management Opportunities

To cope with a highly competitive and challenging environment, retailers hire and promote people with a wide range of skills and interests. Students often view retailing as part of marketing, because managing supply chains is part of a manufacturer's marketing function. But retailers operate businesses and, like manufacturers, undertake traditional business activities. Retailers raise capital from financial institutions; purchase goods and services; develop accounting and management information systems to control their operations; manage warehouses and distribution systems; design and develop new products; and undertake marketing activities such as advertising, promotions, sales force management, and market research.

Thus, retailers employ people with expertise and interests in finance, accounting, human resource management, supply chain management, and computer systems, as well as marketing.

Retail managers are often given considerable responsibility early in their careers. Retail management is also financially rewarding. After completing a management trainee program in retailing, managers can double their starting salary in three to five years if they perform well. The typical buyer in a department store earns \$50,000–\$60,000 per year. Senior buyers and others in higher managerial positions and store managers make between \$120,000 and \$160,000.

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1.5.2 Entrepreneurial Opportunities

Retailing also provides opportunities for people who wish to start their own business. Some of the world’s richest people are retailing entrepreneurs. Many are well known because their names appear over the stores’ door; others you may not recognize. Retailing View 1.2 examines the life of one of the world’s greatest entrepreneurs, Sam Walton. Some other innovative retail entrepreneurs include Jeff Bezos, Anita Roddick, and Ingvar Kamprad.

Jeff Bezos (Amazon.com): After his research uncovered that Internet usage was growing at a 2,300 percent annual rate in 1994, Jeffrey Bezos, the 30-year-old son of a Cuban refugee, quit his job on Wall Street and left behind a hefty bonus to start an Internet business. While his wife MacKenzie was driving their car across country, Jeff pecked out his business plan on a laptop computer. By the time they reached Seattle, he had rounded up the investment capital to launch the first Internet book retailer. The company, Amazon.com, is named after the river that carries the greatest amount of water, symbolizing Bezos’s objective of achieving the greatest volume of Internet sales. He was one of the few dot.com leaders to recognize that sweating the details was critical to success. Under his leadership, Amazon developed technologies to make shopping on the Internet faster, easier, and more personal than shopping in stores by offering personalized recommendations and home pages. Amazon.com has become more than a bookstore. It now provides its Web site and fulfilment services for retailers, in addition to hosting storefronts for thousands of smaller retailers.

Anita Roddick (The Body Shop): Anita Roddick, who passed away in 2007, opened the first Body Shop in Brighton, England, to make some extra income for her family. She did not have any business background but was widely traveled and understood the body rituals of women. The small store that initially sold 15 product lines now sells more than 300 products in over 2,000 outlets throughout the world. From the start, Roddick recycled bottles to save money, but such actions also became the foundation for The Body Shop’s core values. Today it endorses only environmentally friendly products and stands against animal testing. Roddick used her business as a means to communicate about human rights and environmental issues. Many of the products in the Body Shop contain materials bought from farming communities in South America and thereby help those communities maintain their way of life. In 1989, Amazonian Indian tribes were protesting a hydroelectric project that would have flooded the rainforest and their native lands. Coming to their assistance, Roddick drew up a plan to prevent the project from moving forward. She then determined that Brazil nuts produced a moisturizing and conditioning oil and made a deal to buy the nuts from the Indians who gathered them. Today, the Body Shop continues its business relationship with this tribe.

Ingvar Kamprad (IKEA): Ingvar Kamprad, the founder of the Swedish-based home furnishing retailer chain IKEA, was always an entrepreneur; his first business was selling matches to neighbors from his bicycle. By buying matches in bulk and selling them individually at a low price, he discovered he could make a good profit. He then expanded to selling fish, Christmas tree decorations, seeds, and ballpoint pens and pencils. By the time he was 17 years of age, he had earned a reward for succeeding in school: His father gave him the money to register a company. Like Sam Walton, the founder of Wal-Mart, Kamprad is known for his frugality. He drives an old Volvo, flies economy class, and encourages IKEA employees to write on both sides of a paper. This thriftiness has translated into a corporate philosophy of cost-cutting throughout IKEA so that it can offer quality furniture with innovative designs at low prices.

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

Self Assessment

State whether the following statements are true or false:

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

1.6 Global Retail Market

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

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

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

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

Did u know? Global retail development index is an annual study that ranks the top 30 developing countries for expansion worldwide. The index analyses 25 macro economic and retail-specific variables to help retailer device successful global strategy to identify emerging market opportunities.

Self Assessment

Fill in the blanks:

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

1.7 Career in Retail

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

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

Thus, today a career in retail is not a difficult one to enter to. It is exciting because of the number of people one gets to interact with. Apart from that one also needs to be aware of the changing trends in order to increase sales. Sometimes being employed in the retail industry can be frustrating, especially when the customer is not satisfied with their purchase, or they start haggling over the price. But all in all there is a lot of excitement, with a good enough pay pack, depending where one is employed.

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

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

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

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

1. Communication skills
2. Ability to speak in Hindi, and good English speaking skills
3. Friendly personality
4. Well groomed
5. Ability to tackle tricky situations
6. A good team member
7. Respect for the seniors
8. Knowledge of the product
9. Family background
10. Educational background

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

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

Example: One is interested in cosmetics, but opts for retailing chocolates, and then it could create a lot of frustration in times to come. But then, for those ready to take up a challenge the product or service does not matter.

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

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

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

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

1. Sales associate
2. Department manager
3. Assistant store manager
4. Customer service representative
5. Merchandising assistant
6. Management trainee

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

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

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

Self Assessment

State whether the following statements are true or false:

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

Case Study

Developing-a-Career-Path-in-Retail

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

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

To achieve this, Harrods has to counter some of the negative perceptions about working in retail. Working in a shop has traditionally been seen as low-skilled - with long hours, poor pay and little chance of promotion. However, because quality is key at Harrods, employees are well-paid, respected and have clear career paths open to them. Senior managers at Harrods have come from all walks of life and started out with various levels of qualifications. All have benefited from development opportunities provided by the company.

The Importance of Training and Development

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

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

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

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

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

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

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

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

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

Developing a Career Path

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

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

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

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

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

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

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

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

Harrods offers other programmes

The Business Academy which supports managers as they progress into more senior positions.

The Oxford Summer School which is a challenging academic learning opportunity held at Keble College, Oxford. This is designed to highlight some of the problems, decisions and challenges of running a retail business. 10 prized places are awarded to high potential managers.

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

Retaining Talent

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

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

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

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

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Careers at Harrods

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

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

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

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

Amber's application was successful because of the customer skills she was able to bring from previous experiences. She is now the Retail Manager of Childrens wear. His responsibilities range from overseeing budgets to managing both stock and people, as well as upholding the Harrods standards of service. By taking advantage of the Harrods Management Programme, Amber has risen to a better paid and more responsible job.

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

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

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

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Conclusion

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

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

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

Questions:

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

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

1.8 Summary

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

1.9 Keywords

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

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

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

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

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

Merchandise: Goods to be bought and sold.

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

1.10 Review Questions

1. Describe the act of retailing. Why do you think retailing is important?
2. "Retailers provide a collection of service benefits to their customers." Substantiate.
3. Discuss the functions of retailing with the help of suitable examples.
4. Discuss about the Social and Economic significance of Retailing.
5. Explain about the structure of Retailing and Distribution
6. Describe about the opportunities in Retailing.
7. Explain how sorting by the retailer helps you as a customer.
8. Describe the dimensions of retail equation.
9. "Retailing is not only an integral part of our economic structure but also shapes and is shaped by, our way of life." Discuss.
10. Explain the sudden surge in the global retail market. Why do developing countries like Brazil and India constantly feature in the top of Global Retail Development Index?
11. Discuss the pros and cons of a career in retail.
12. What are the jobs available in retail?
13. Explain the concept of 'breaking bulk'. What is its relevance?

Answers: Self Assessment

1. True
2. False
3. True
4. Assortment
5. Sorting
6. Inventory
7. Marketing
8. Service
9. Direct
10. True

Notes

11. True
12. Wal-Mart
13. Brazil
14. True
15. True

1.11 Further Readings

Books

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

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

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

Online links

http://www.iilm.edu/iilm-online/retail-management.html

http://books.google.co.in/books?isbn=8174465480

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http://www.prenhall.com/marketing/armstrong/38187_01_p1-33.pdf

Unit 2: Retailing in India

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Objectives

After studying this unit, you will be able to:

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

Introduction

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

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

2.1 Organised Retail

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

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

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

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

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

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

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

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

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

Self Assessment

Fill in the blanks:

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

2.2 Evolution of Retail in India

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

Story of Retail Revolution

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

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

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

One Stop Shopping

The changes occur in retail sector due to the changes in environmental conditions. In the early part of the 20th century, the American housewife, which shopping for her family's dinner, thought various products at various places and tired a lot. Then she thought that if all products

Notes

available under one roof; there by we can save our time/effort/money. The retailers trapped the need and had launched the biggest hypermarkets. Then these retail stores started to sell food, varieties of products and variety of schemes introduced in order to draw the attention of the customers.

Example: Big Bazaar, Spencer.

Supermarket Revolution

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

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

Pleasure of Self-service Concept

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

Example: More 4 U, Big Bazaar.

Globalization of Retailing

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

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

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

Size of the Operations

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

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

Self Assessment

Fill in the blanks:

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

2.3 Drivers of Retail Change in India

Following are the drivers of retail change in India:

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

Self Assessment

State whether the following statements are true or false:

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

2.4 Size of Retail in India

Organized retailing accounts for 6% of the industry turnover, comprising value-added foods worth ₹ 770 billion, music and entertainment worth ₹ 40 billion and color cosmetics worth ₹ 12 billion. Big business houses today are in a position to provide Indian masses with shopping satisfaction, entertainment, quality products, polite salespersons, product information and discounts. Though current margins are low due to high property cost and poor infrastructure, this scenario is going to change. Retailing is the only business where one buys in credit and sells for cash. Further, there are 30 million houses with an annual income of more than ₹ 150,000 and this is expected to grow to 80 million by 2008. Financial institutions are encouraging such ventures, as there is permission for opening up of branded foreign retail outlets in India.

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

2.5 Retail Clothing in India

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

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

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

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

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

In the retail outlets, one is provided with retail clothes of all colors, shapes and price range to suit the needs of different types of retail clothing consumers. With Indian economy on a fast trajectory currently, the incomes and expectations of people are going up. The advent of globalization has further made the latest retail clothing ranges accessible all across the country. While big stores with impressive dĕcor and ambiance have various sections for men, women, kids and teenagers that cater to most of their needs, there are the traditional retail stores that continues to act as the "good, old, friendly shops", offering their products in not-so-classy ways.

2.6 Fashion Retail in India

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

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

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

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

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

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

Caselet

Fashion Drives Retail Boom – Present Scenario

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

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

Contd....

The total Fashion sector estimated at ₹ 1,91,400 crore formed about 15% of the countries retail market of ₹ 12,00,000 crore. Elaborated Mr. R.S. Roy, editorial Director of the Images year Book. The major share ₹ 1,13,500 crore, in the fashion sector came from clothing, textiles and fashion accessories, which is 9% of the overall retail market. Nearly 19 percent of this market is organized. Of the total organized market clothing, textile and fashion accessories account for 39%.

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

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

2.7 Books and Music Retailing

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

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

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

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

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

After the successful launch of Reliance Fresh, Reliance Mart, Reliance Digital, Reliance Trendz, Reliance Footprint, Reliance Wellness and Reliance Jewels, this is the 8th format of stores from

Reliance Retail to be launched in India. Reliance Retail Limited (RRL) announced the launch of a new specialty store "Reliance TimeOut" on Cunningham Road in Bangalore today. This store houses Books, Music, Stationery, Toys and Gifts.

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

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

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

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

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

Self Assessment

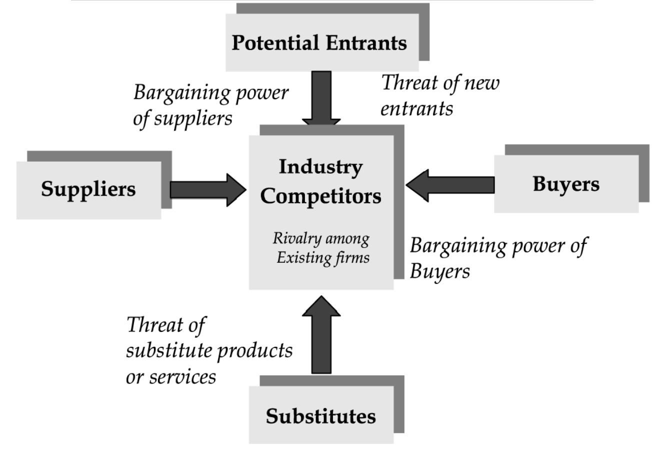
State whether the following statements are true or false:

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

2.8 Challenges to Retail Development in India

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

Figure 2.1: Michael Porter's Five Forces Model


Potential Entrants
Bargaining power of suppliers
Threat of new entrants
Suppliers
Industry Competitors
Rivalry among Existing firms
Buyers
Bargaining power of Buyers
Threat of substitute products or services
Substitutes

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

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

Self Assessment

Fill in the blanks:

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

Case Study

FoodWorld

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

Raghu Pillai, managing director, FoodWorld says, "We started in Chennai because of the developed retail market, good real estate prospects and cosmopolitan atmosphere. We have the most comprehensive range of products at the most competitive prices." Lower

Contd....

pricing is a function of the volume that the store generates. It gets close to a million customers a year. The throughput in a store ranges from ₹ 20,000 lakh to ₹ 17 crore a month. It has plans to touch the ₹ 1000 crore figure by the year 2003-2004. Says Pillai, "From humble beginnings, today FoodWorld has 12 outlets in Chennai, 14 in Bangalore, 9 in Hyderabad, 4 in Pune, and 2 in Coimbatore. It occupies a total retail space of 100,000 sq. ft and has additional 100,000 sq. ft of warehousing facility. Not content to sit on its laurels, FoodWorld has chalked up plans of setting up 100 stores by December 2000. But instead of venturing into new cities, FoodWorld will consolidate itself in the already existing locations.

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

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

Some of the problems encountered are assessing the best location, attaining economic viability and leveraging synergies. As all volumes are aggregated in the state, generating large enough volumes to leverage it as an advantage is a difficult task. The infrastructure of cold chains and basic infrastructure is missing. Getting trained people to man, the stores has proved another challenge. FoodWorld has the largest number of employees from government and municipal corporation schools.

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

Question

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

Source: A & M, September 30, 2000

2.9 Summary

- As per the definition retail industry comprises of organized and unorganized sectors. Corporate retailing refers to trading activities undertaken by licensed retailers, that is, those who are registered for sales tax, income tax, etc.
- Unorganized retailing, on the other hand, refers to the traditional formats of low-cost retailing, for example, the local kirana shops, owner operated general stores, paan/beedi shops, convenience stores, hand cart and pavement vendors, etc.
- About 47% of India's population is under the age of 20 and this will increase to 55% by 2015. This young population which is technology savvy, watch more than 50 TV satellite channels, and display the highest propensity to spend, will immensely contribute to the growth of the retail sector in the country.
- Due to the couple earning most of the housewives likely to spend their valuable purchases at hypermarkets because of entire products available under one roof.

- The atmospheric conditions are good and time, energy, money can be saved. They likely to purchase readymade foods like curries, instant idli, zalebi mix; Butter, Cheese what else all needs fulfilled in readymade mode.
- India has a long tradition of eating away from home, at a plethora of roadside eateries, snack shops and loading places.
- Due to the double income of couple they like to have the outside food, thereby they will get the enjoyment, saving time etc.
- But is only in recent decades that an organized, institutional food service sector has started to develop, requiring longer-scale and more organized supply chains.

2.10 Keywords

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

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

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

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

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

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

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

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

2.11 Review Questions

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

Answers: Self Assessment

1. Corporate
2. Unorganised
3. Organised
4. One-stop
5. Self-service
6. False
7. True
8. True
9. True
10. True
11. False
12. False
13. Attractiveness
14. Suppliers
15. Greater

2.12 Further Readings

Books

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

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

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

Online links

http://edissertations.nottingham.ac.uk/785/2/ediissertation.pdf

http://www.indiainbusiness.nic.in/industry-infrastructure/service-sectors/retailing.htm

http://books.google.co.in/books?isbn=0074637177

http://www.skirec.com/images/download/ijmmr/5.pdf

Unit 3: Types of Retailer

CONTENTS

Objectives
Introduction
3.1 Retailer Characteristics, Functions and Services
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Objectives

After studying this unit, you will be able to:

- Describe retailer characteristics
- Explain about food retailers
- Discuss about general merchandise retailers
- Identify service retailing
- Describe about types of ownership
- Discuss about retail channels
- Explain effective multichannel retailing

Introduction

The word retailer has been derived from the French word "Retail" which means to sell in small quantities, rather than in gross. A retailer is a person who purchases a variety of goods in small quantities from different wholesalers and sell them to the ultimate consumer. He is the last link in the chain of distribution from the producer to the consumer.

3.1 Retailer Characteristics, Functions and Services

The followings are some of the essential characteristics of a retailer:

1. He is regarded as the last link in the chain of distribution.
2. He purchases goods in large quantities from the wholesaler and sell in small quantity to the consumer.
3. He deals in general products or a variety of merchandise.
4. He develops personal contact with the consumer.
5. He aims at providing maximum satisfaction to the consumer.
6. He has a limited sphere in the market.

Functions

Retailers perform a number of functions. These are:

1. The retailer buys a variety of products from the wholesaler or a number of wholesalers. He thus performs two functions like buying of goods and assembling of goods.
2. The retailer performs storing function by stocking the goods for a consumer.
3. He develops personal contact with the consumers and gives them goods on credit.
4. He bears the risks in connection with Physical Spoilage of goods and fall in price. Besides he bears risks on account of fire, theft, deterioration in the quality and spoilage of goods.
5. He resorts to standardization and grading of goods in such a way that these are accepted by the customers.
6. He makes arrangement for delivery of goods and supply valuable market information to both wholesaler and the consumer.

Service of a Retailer

A retailer provides a number of services to the customer and to the wholesaler.

The services provided by a retailer to customer are as follows:

1. He provides ready stock of goods and as such he sells and quantity of goods desired by the customers.
2. He keeps a large variety of goods produced by different producers and thereby ensures a wide variety of choice to the customers.
3. He relives the consumers of maintaining large quantity of goods for future period because he himself holds large stock of goods.
4. He develops personal relationship with the customers by giving them credit.
5. He provides free-home delivery service to the customers.
6. He informs the new product to the customers.
7. He makes arrangement for replacement of goods when he receive complaints.

Notes

The services provided by retailer to wholesaler are as follows:

1. He gives valuable market information with regard to taste, fashion and demand for the goods to the wholesaler.
2. The retailer maintains direct contact with the customers and so he relieves the wholesaler with regard to maintenance of direct contact.
3. He helps the wholesaler in getting their goods distributed to the consumer.
4. He is regarded as an important link between the wholesaler and the consumer.
5. He creates demand for the products by displaying the goods to the consumers.

A retail business endeavors to create a compelling concept against competitors. For the characteristics of the vision to be effective, the concept must create an emotional bond with customers. For a customer to see the value of the characteristics of the business' appeal, he looks at what the business gives him, not what the business put in.

Clear Vision

To connect to a core customer group, one of the characteristics a retail company must have is a clear vision. What the company is offering, who their target market is and the value of the product or service to the customer must be clear. For example, North American car rental company Enterprise Rent-A-Car focused on customers who need a car during repairs as its target market rather than the standard airport focused car rental. That focus helped Enterprise dominate a market and increase market share.

Value

A retail business that sells products or services that appeal to customers' needs has the ability to stand up against competition. Physical facilities, pricing, products and customer service differentiate a busy retail store from an unnoticed one. If the characteristics appeal to a consumer, in her mind, the business represents value. When a retailer makes the value of its business obvious, it prevents service levels from dropping.

Functional

Price, convenience and store experience are functional characteristics that make up a strong retail brand. These functional characteristics are common to almost all retail stores. A brand may use its store experience to create an emotional bond by matching its brand's characteristics with consumers' values. The emotional connection could trigger sales. Combining functional characteristics of store experience with price and convenience, a retailer strives to have returning customers.

Concept

A retail business aims to conceive an idea and deliver consistency, profitability and integrity from concept to execution. Ikea, an international furniture company, for example, developed a unique presentation and customer assembly system difficult to copy. The unique concept created a barrier to competitors. In order to be able to execute on its ideas, a company must have adequate resources and capital.

Did u know? More than 95% of the Indian retail sector falls in the organised category. Organised retail is expected to grow from 5-6 to 4-18% by 2015.

3.2 Food Retailers

The latter half of the 20th Century, in both Europe and North America, has seen the emergence of the supermarket as the dominant grocery retail form. The reasons why supermarkets have come to dominate food retailing are not hard to find. The search for convenience in food shopping and consumption, coupled to car ownership, led to the birth of the supermarket. As incomes rose and shoppers sought both convenience and new tastes and stimulation, supermarkets were able to expand the products offered. The invention of the bar code allowed a store to manage thousands of items and their prices and led to 'just-in-time' store replenishment and the ability to carry tens of thousands of individual items. Computer-operated depots and logistical systems integrated store replenishment with consumer demand in a single electronic system. The superstore was born.

On the Global Retail Stage, little has remained the same over the last decade. One of the few similarities with today is that Wal-Mart was ranked the top retailer in the world then and it still holds that distinction. Other than Wal-Mart's dominance, there's little about today's environment that looks like the mid-1990s. The global economy has changed, consumer demand has shifted, and retailers' operating systems today are infused with far more technology than was the case six years ago.

Saturated home markets, fierce competition and restrictive legislation have relentlessly pushed major food retailers into the globalization mode. Since the mid-1990s, numerous governments have opened up their economies as well, to the free markets and foreign investment that has been a plus for many a retailer. However, a more near-term concern, has been the global economic slowdown that has resulted from dramatic cutback in corporate IT and other types of capital spending. Consumers themselves have become much more price sensitive and conservative in their buying, particularly in the more advanced economies.

From an operational point of view, active practitioners have voiced their opinion that retailer concerns in 2003 have turned to deflation, lack of pricing power, global overcapacity, low interest rates, economic stagnation, slump in world tourism and declining consumer confidence. But, even before the global economic slowdown that forced retailers into monitoring costs more effectively, technological advances were a way of life in retail organizations. Technology has become the real enabler for retailers over the last six years. Supply chain innovations for retailers were particularly strong in the second half of the 1990s and have continued into today. With all the emphasis on technology and cost-cutting, a major thrust of retailers continues to be demand-based: finding new markets through globalization efforts. Four years ago, more than half (53 per cent) of the top 200 retailers operated in only one country. Today, only 44 per cent remain single-country merchants. This globalization trend can only intensify in the years ahead. The benefits of increased sales and greater economies of scale are too large to be ignored.

The global retail industry has traveled a long way from a small beginning to an industry where the world wide retail sales alone is valued at $ 7 trillion. The top 200 retailers alone account for 30% of worldwide demand. Retail sales being generally driven by people's ability (disposable income) and willingness (consumer confidence) to buy, compliments the fact that the money spent on household consumption worldwide increased 68% between 1980 and 2003. The leader has indisputably been the USA where some two-thirds or $ 6.6 trillions out of the $ 10 trillions American economy is consumer spending. About 40% of that ($ 3 trillions) is spending on discretionary products and services. Retail turnover in the EU is approximately Euros 2000 billion and the sector average growth looks to be following an upward pattern. The Asian economies (excluding Japan) are expected to grow at 6% consistently till 2005-06. Positive forces at work in retail consumer markets today include high rates of personal expenditures, low interest rates, low unemployment and very low inflation. Negative factors that hold retail sales back involve weakening consumer confidence.

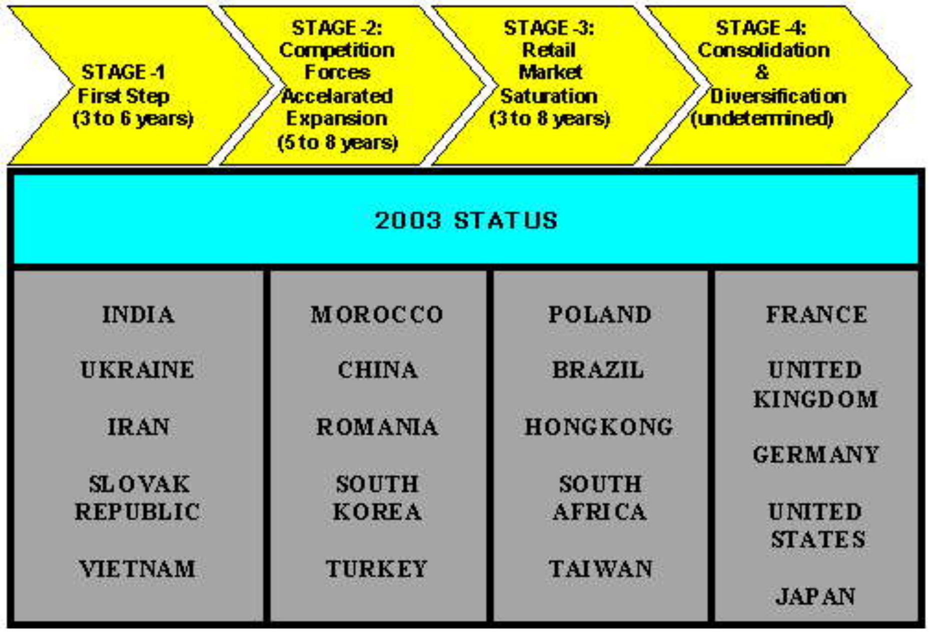
Notes

Notes Government of India allows FDI to the extent of 51% in single brand retail. It also allows 100% automatic approval for FDI in wholesale cash and carry trading.

3.3 Food Retail in India

Though with a population of a billion and a middle class population of over 300 millions organized retailing (in the form of food retail chains) is still in its infancy in the Country. India has been rather slow in joining the Organized Retail Revolution that was rapidly transforming the economies in the other Asian Tigers. This was largely due to the excellent food retailing system that was established by the *kirana* (mom-and-pop) stores that continue meet with all the requirements of retail requirements albeit without the convenience of the shopping as provided by the retail chains; and also due to the highly fragmented food supply chain that is cloaked with several intermediaries (from farm-processor-distributor-retailer) resulting in huge value loss and high costs. This supplemented with lack of developed food processing industry kept the organized chains out of the market place. The correction process is underway and the systems are being established for effective Business-to-Business (farmer-processor, processor-retailer) solutions thereby leveraging the core competence of each player in the supply chain.

Figure 3.1: Spread of Organized Retailing in India



STAGE-1 First Step (3 to 6 years)	STAGE-2: Competition Forces Accelarated Expansion (5 to 8 years)	STAGE-3: Retail Market Saturation (3 to 8 years)	STAGE-4: Consolidation & Diversification (undetermined)
2003 STATUS			
INDIA	MOROCCO	POLAND	FRANCE
UKRAINE	CHINA	BRAZIL	UNITED KINGDOM
IRAN	ROMANIA	HONGKONG	GERMANY
SLOVAK REPUBLIC	SOUTH KOREA	SOUTH AFRICA	UNITED STATES
VIETNAM	TURKEY	TAIWAN	JAPAN

Organized retailing is spreading and making its presence felt in different parts of the country. The trend in grocery retailing, however, has been slightly different with a growth concentration in the South. Though there were traditional family owned retail chains in South India such as Nilgiri's as early as 1904, the retail revolution happened with various major business houses foraying into the starting of chains of food retail outlets in South India with focus on Chennai, Hyderabad and Bangalore markets, preliminarily. In the Indian context, a countrywide chain in food retailing is yet to be established as lots of Supply Chain issues need to be answered due to the vast expanse of the country and also diverse cultures that are present.

3.4 Retail Models in India: Current and Emerging

The Indian food retail market is characterized by several co-existing types and formats. These are:

1. The road side hawkers and the mobile (pushcart variety) retailers.
2. The *kirana* stores (the Indian equivalent of the mom-and-pop stores of the US), within which are:
   (a) Open format more organized outlets
   (b) Small to medium food retail outlets.
3. Convenience Stores
4. Supermarkets

Within modern trade – the organised retailers, we have:

1. The discounter (Subhiksha, Apna Bazaar, Margin Free)
2. The value-for-money store (Nilgiris)
3. The experience shop (Foodworld, Trinethra)
4. The home delivery (Fabmart)

While the focus of this note is on modern organized retail trade, we hereunder present insights into the smaller, semi and unorganized retailers.

Hawkers – 'Mobile Supermarkets'

The unorganized sector is characterized by the lari-galla vendors (also known as "mobile supermarket") seen in every Indian bylane and is, therefore, difficult to track, measure and analyse. But they do know their business – these lowest cost retailers can be found wherever more than 10 Indians collect – a rural post office, a dusty roadside bus stop or a village square. As far as location is concerned, these retailers have succeeded beyond all doubt. They have neither village nor city-wide ambitions or plans – their aim is simply a long walk down the end of the next lane. This mode of "mobile retailers" is neither scalable nor viable over the longer term, but is certainly replicable all over India. Most retailing of fresh foods in India occurs in Mandis and roadside hawker parks, which are usually illegal and entrenched. These are highly organized in their own way. Hawking of food products, cooked food and FMCG products is a very interesting model of retailing. Much has been written about these roadside "malls" – from social security issues to their nuisance value. However, if you put these hawkers together, they are akin to a large supermarket with little or no overheads and high degree of flexibility in merchandise, display, prices and turnover. While shopping ambience and the trust factor maybe missing, these hawkers sure have a system that works.

Kirana/Grocers/ Provision Stores/Mom-and-Pop Stores

Semi-organized retailers like *kirana* (mom-and-pop stores), grocers and provision stores are characterized by the more systematic buying – from the mandis or the farmers and selling – from fixed structures. Economies of scale are not yet realized in this format, but the front end is already visibly changing with the times. These stores have presented Indian companies with the challenge of servicing them, giving rise to distribution and cashflow cycles as never seen elsewhere in Asia. The model is very antithesis of modern retail in terms of the buyer (retailer)-seller (FMCG) equations. It is not unknown for MNC leaders to link the supply of one line of products to another slower moving line of products. These retailers are not organized in the manner that they could challenge the power of the sellers, most protests have been in the form of boycotts, which really haven't hit any company permanently.

Convenience Stores

A convenience store is a small store that stocks a range of everyday items such as groceries, toiletries, alcoholic and soft drinks, tobacco products, and newspapers. They have a wide category of products and have a minimum required stock of each. They are open for long hours and are situated at various convenient locations. They differ from general stores and village shops in that they are not in a rural location and are used as a convenient supplement to larger stores.

A convenience store may be part of a gas/petrol station. It may be located alongside a busy road, in an urban area, or near a railway or railroad station or other transport hub. In some countries, convenience stores have very long shopping hours, some being open 24 hours.

Convenience stores usually charge higher prices than ordinary grocery stores or supermarkets, which they make up for with convenience by serving more locations and having shorter cashier lines.

Some of the Major convenience Store chains with their locations in India are as follows:

Reliance Fresh - All India

Spencers - All India

More - All India

Easyday - Mainly in Punjab and Delhi currently.

Big Apple - Delhi and surroundings

Sabka Bazaar - Mainly in Delhi and surroundings.

6Ten - Mainly Delhi and Punjab

Nilgiris - Mainly South India - Tamil Nadu, Karnataka

Big Bazaar - All India (India's Walmart)

Also, a lot of Petrol pumps in big cities have IN & OUT or CONVENIO convenience stores.

Supermarkets

A supermarket, a large form of the traditional grocery store, is a self-service shop offering a wide variety of food and household products, organized into aisles. It is larger in size and has a wider selection than a traditional grocery store, but is smaller and more limited in the range of merchandise than a hypermarket or big-box shop.

The supermarket typically comprises meat, fresh produce, dairy and baked goods aisles, along with shelf space reserved for canned and packaged goods as well as for various non-food items such as household cleaners, pharmacy products and pet supplies. Most supermarkets also sell a variety of other household products that are consumed regularly, such as alcohol (where permitted), medicine, and clothes, and some stores sell a much wider range of non-food products.

3.5 Integration of Food Industry – The Key Driver of Food Retail in India

India is world's second largest grower of fruits and vegetables after Brazil and China. While the agriculture sector has witnessed several leaps of innovation and technological advancements, the processing sector is still in its infancy. Even with less than 4% processing of fruits and vegetables, the Food Processing Industry sector in India is one of the largest in terms of production, consumption within India, export and growth prospects. The government has accorded it a high priority, with a number of fiscal reliefs and incentives, to encourage commercialisation and value addition to agricultural produce; for minimising pre/post harvest wastage, generating employment and export growth. As a result of several policy initiatives undertaken since liberalisation in early 90's, the industry has witnessed fast growth in most of the segments. In the following few paragraphs, it can be noted that the processed food market for India is vast and the amount of scope that retail chains would be exposed to is phenomenal taking into consideration the demographics and raise in standards of living. Retailers could throng the market with all these processed and packaged foods with their private labels.

With the emergence of the big private corporates, NGOs (Non-Government Organisations) and Government organizations into the food processing scene, India is making big inroads into the Food Processing Industry. These corporates and NGOs have reached out to the farmers and provided them with timely advice and help in the upgradation of farm practices with valuable inputs on various areas of farming from sowing to harvesting which includes quality seed procurement, manures, fertilizers and pesticides etc. Some of the successful models are that of ITC's e-choupal a model that helps the soyabean farmers in contract producing for ITC for its commodity trading business. The PEPSI experimenting with Punjab farmers in growing the right quality tomato for its tomato purees and pastes. Some of the leading food retail chains working with farmers for contract growing greens for supply to their retail outlets etc. These successful models are being replicated with required changes all over the country and the food industry is getting integrated more strongly.

India has also seen a flurry of food chain majors like McDonalds, Pizza Hut and Kentucky Fried Chicken finding their place among the Indian consumers. The trend still follows for food chains in India to spread to almost all cities and towns.

These advancements have revolutionised the integration of the Indian Food Industry and has played a vital role in solving, to a large extent, major supply chain issues that prevailed. The trend is that these successful institutional intervention models be replicated and spread in all segments of the food industry far and wide through the country that benefit all the incumbents of the chain evolve. This finally helps the retailer as his supply chain becomes much leaner and vertically integrated. He is in a position to offer a wide variety and highest degree of convenience to his customer.

Economy

Economic growth at over 5.5% over the last eight years, forex reserves of over $100 billions and a stable government has helped India to look more progressively towards future. The economic development was largely attributed to its dominance in the Information Technology Sector in the global market place and its large English speaking population that made it the ideal choice for back office operations for MNC's world over. The manufacturing sector also provided its might to the economic development by going global hitherto restricting to export of raw materials or intermediaries that has not graduated to supply of end product be it Pharmaceuticals or Consumer Vehicles. All this has translated in higher income levels and more surpluses for the middle class segment that is getting ploughed into the retail sector; again fueling the economy to higher levels. The last five years have seen the PPP of average Indian middle class (over 300 millions) go up several times unleashing the power of purchasing. The retail sector was the greatest beneficiary. The need for a shopping experience combined with the convenience of shopping for the upwardly mobile middle class has been on the major factors for retail boom in India.

The Informed Consumer

Over the years, the increasing literacy in the Country and the exposure to developed nations via satellite television or by way of the overseas work experiences, the consumer awareness has increased on the quality and the price of the products/services that is expected. Today more and more consumers are vocal on the quality of the products/services that they expect from the market. This awareness has made the consumer seek more and more reliable sources for purchases and hence the logical shift to purchases from the organized retail chains that has a corporate background and where the accountability is more pronounced. The consumer also seeks to purchase from a place where his/her feedback is more valued.

Self Assessment

Fill in the blanks:

1. A .... business that sells products or services that appeal to customers' needs has the ability to stand up against competition.
2. .... is world's second largest grower of fruits and vegetables after Brazil and China.
3. .... growth at over 5.5% over the last eight years, forex reserves of over $100.
4. The economic development was largely attributed to its dominance in the Information Technology Sector in the .... market place.

3.6 Evolution of Organized Retailing

Retailing, one of the largest sectors in the global economy, is going through a transition phase in India. For a long time, the corner grocery store was the only choice available to the consumer, especially in the urban areas. This is slowly giving way to international formats of retailing. The traditional food and grocery segment has seen the emergence of supermarkets/grocery chains, convenience stores and fast-food chains.

The traditional grocers, by introducing self-service formats as well as value-added services such as credit and home delivery, have tried to redefine themselves. However, the boom in retailing has been confined primarily to the urban markets in the country. Even there, large chunks are yet to feel the impact of organized retailing. There are two primary reasons for this. First, the modern retailer is yet to feel the saturation effect in the urban market and has, therefore, probably not looked at the other markets as seriously. Second, the modern retailing trend, despite its cost-effectiveness, has come to be identified with lifestyles.

In order to appeal to all classes of the society, retail stores would have to identify with different lifestyles. In a sense, this trend is already visible with the emergence of stores with an essentially 'value for money' image. The attractiveness of the other stores actually appeals to the existing affluent class as well as those who aspire to be part of this class. Hence, one can assume that the retailing revolution is emerging along the lines of the economic evolution of society.

It was only in the year 2000 that the economists put a figure to it: ₹ 400,000 crore (1 crore = 10 million) which is expected to develop to around ₹ 800,000 crore by the year 2005 – an annual increase of 20 per cent. Retailing in India is unorganized with poor supply chain management perspective. According to a recent survey by some of the retail consulting bodies, an overwhelming proportion of the ₹ 400,000 crore retail market is UNORGANISED. In fact, only a ₹ 20,000 crore segment of the market is organized. As much as 96 per cent of the 5 million-plus outlets are smaller than 500 square feet area. This means that India per capita retailing space is about 2 square feet (compared to 16 square feet in the United States). India's per capita retailing space is thus the lowest in the world.

Currently the retail landscape is filled with Supermarket chains with over 1000 outlets all over the country to increase to around 5000 by the 2005. The success of a couple of Hypermart's indicate the evolution of hypermarkets in the country prominent among them are Giant, Metro, Big Bazaar models. While the average bill value at a supermarket is in the range of ₹ 300 per bill, the average bill amount at a Hypermarket is in the range of ₹ 750-1000, indicating that the model is in tune with the global models where the average spend is increasing with the shopping experience.

3.7 Impact of Organized Retail

Organized retailing is spreading and making its presence felt in different parts of the country. The trend in grocery retailing, however, has been slightly different with a growth concentration in the South. Though there were traditional family owned retail chains in South India such as Nilgiri's as early as 1905, the retail revolution happened with the RPG group starting the Foodworld chain of food retail outlets in South India with focus on Chennai, Hyderabad and Bangalore markets, preliminarily. The experiment has reaped rich dividends and the group is now foraying into other territories as well. Owing to the success of Foodworld model of RPG group, several new models such as Trinethra, Subhiksha, Margin Free and others have made their foray into this sector albeit at regional levels. Today the food retail sector in India is about rupees ten lakh crores (USD 200 billions) of which the organised food retail segment is about 1 per cent and increasing at a pace of over 20% y-o-y.

To be successful in food retailing in India essentially means to draw away shoppers from, the roadside hawkers and *kirana* stores to supermarkets. This transition can be achieved to some extent through pricing, so the success of a food retailer depends on how best he understands and squeezes his supply chain. The other major factor is that of convenience shopping which the supermarket has the edge over the traditional *kirana* stores. On an average a supermarket stocks up to 5000 SKU's against few hundreds stocked at an average *kirana* stores.

Though with excellent potential, India poses a complex situation for a retailer, as this is a Country where each State is a mini-Country by itself. The demography's of a region vary quite distinctly from others. In order to appeal to all classes of the society, retail stores would have to identify with different lifestyles. Hence we may find more of regional players and it would take enormously long time before nation wide successful retail chains emerge. This is the main reason as to why the successful retail chains in the country today operate at regional segments only and are not aiming at nation wide presence, at least for the time being.

In the organized retail industry, the gestation periods are long, institutional funding is difficult, and there is none or little Government support. But the belief among top retailer chains in the country is that the industry will see large investments coming once the current ban on foreign direct investment is lifted. But that could be two-three years away. Food and grocery retailing is a tough business in India with margins being very low, and consumers not dissatisfied with existing shops where they buy. For example, the next-door grocery shopkeeper is smart and delivers good customer service, though not value.

As of now, while Chennai has about five organised food and grocery retail chains, other big cities such as Delhi, Bangalore, and Mumbai average only two-three such chains. Almost all food retail players have been region-specific as far as geographical presence is concerned in the country. To illustrate with examples, the RPG Group's FoodWorld, Nilgiris, Margin Free, Giant, Varkey's and Subhiksha, all of which are more or less spread in the Southern region; Sabka Bazaar has a presence only in and around Delhi; names such as Haiko and Radhakrishna Foodland are Mumbai-centric; while Adani is Ahmedabad-centric. Industry topography in India is such that spreading presence across cities is a tough call. As pointed out by many experts, organised food and grocery retailing chains going national requires significant investments. Retailing within this sector is not just about the front-end, but involves complex supply chain and logistics issues as well.

The trend and mindset of the present retailer chains in India can be best understood by studying FoodWorld as an example, which came in first in the food and grocery retailing sector. The chain has no plans to venture beyond the Southern region just yet. Current plans are to focus on the Southern markets and achieve saturation. The intention is that by 2005, they could look at the other regions. Subhiksha, a Chennai based discount chain, too wants to be the principal store of purchase for at least 40 per cent of all consumers living within 500-750 meters of the store, that is, within walking distance. This makes the point very clear that the strategy among most existing retail chains of various formats is to completely saturate the markets where they are already established players and then move on to virtually untouched areas where the challenge of sourcing resources and extending their supply chain model to best suit the size and expanse of the market would be a challenging task.

Meanwhile, the RPG group plans to take its new formats such as Giant Hypermarkets national over the next three years. Grocery is a large component of this format, but not the only one. To elaborate on the hurdles of going pan-Indian, fundamentally, the way a basic grocery retailing model works is that the high set-up costs in terms of setting up buying/distribution infrastructure is gradually amortised over a larger number of stores. The back-end costs without distribution centre costs, or what in retail jargon is called retail administration costs, should stabilise at around 2.5 per cent to 3 per cent of sales.

It can be explained that the obstacles of looking at a pan-India model for grocery are several. Given the federal nature of the country, the weak infrastructure and the major variances in eating habits in different parts of the country, one will have to replicate the retail administration costs for at least each region and therefore the gestation period of the project becomes huge. However, if a model is in place where the upfront store revenues scale very rapidly, then it is possible. Therefore, if one is to attempt a pan-Indian grocery foray, it will have to be in the hypermarket format with its attendant investment numbers and risk profile.

If a close look is taken at the nature of the Indian Retail Markets, it can be seen that there is so much potential to extract from individual regions, that players are in no tearing hurry to spread out. Based on a recent study by a renowned government institution in India, in the six major metros, Delhi has the highest per capita consumption of food and grocery, among supermarkets. Chennai, "the mecca of retailing", comes at fourth place. This shows the high potential the sector presents. Chennai has some five supermarket chains, and each of these are doing well for themselves. So there is enough scope to expand even in one single city in India.

Sabka Bazaar, a supermarket chain restricted to Delhi alone, is now generating sales of about ₹ 11 crore from its 19 stores which best illustrates the potential of each individual city. This explains the reason for delay in intentions of retailers to spread far and wide.

Pantaloon Retail (India) Ltd., which operates two types of retail formats, made its maiden foray in food and grocery retailing in North India in mid-2003. Big Bazaar, Pantaloon group's discount store chain, has taken off to a roaring start in Delhi. The Pantaloon Big Bazaar in Delhi is the sixth for the group, and the first in North India. It has been found that existing Big Bazaar stores in cities such as Hyderabad, Bangalore and Mumbai attract average footfalls of 20,000 to 25,000 per day, more so during weekends. While Big Bazaar is essentially a discount store retailing product categories ranging from food and grocery to apparel to footwear to home and interior products, food and grocery retailing forms a significant part of the chain's business. Typically, while food and grocery retailing does well at the beginning of the month, the apparel sector sees maximum off take during festivals.

It can be observed that the most popular retail format in India is the 'supermarket', beside the corner shop/grocery store/'mom and pop' store. Hypermarkets have very recently come into being and are negligible in number though most retail chains do intend to expand their presence through this format as well very soon. 'Discount chains' are also substantial in number and are growing at a fast pace through the country, predominantly, in the southern region.

Given that organised retail has been registering growth rates of approximately 40 per cent over the last three years, it is expected to grow to about ₹ 35,000 crore in 2005, and close to ₹ 70,000 crore in 2010. If projections were to be made considering the current trends in food retailing in India, some years down the line, food and grocery stores will become dominating trade partners for the food industry, which, in turn, will be forced to offer special discounts and trade terms for them to get the shelf space in such stores. Also, once established, in-store label brands will become a real threat to the industry as manufacturers will have to compete with the store label brands that are generally very price-competitive. As for the spread geographically, strong chances stand that the major chains would spread to the next grade of cities in the country over the next 5 years or so and then progressively start covering every corner of the country. Most chains have already started developing their own unique supply chains that would suit their needs precisely. Replicating the success stories of the big names of the Western nations may still be a distant dream for Indian food and grocery retailers, but at least the winds are blowing in the direction of growth.

Self Assessment

Fill in the blanks:

5. .... one of the largest sectors in the global economy, is going through a transition phase in India.
6. .... retailing is spreading and making its presence felt in different parts of the country.
7. The Pantaloon Big Bazaar in Delhi is the .... for the group, and the first in North India. It has been found that existing Big Bazaar stores.

3.8 General Merchandise Retailers

A **general store**, **general merchandise store**, **general dealer** or **village shop** is a rural or small town store that carries a general line of merchandise. It carries a broad selection of merchandise, sometimes in a small space, where people from the town and surrounding rural areas come to purchase all their general goods. The store carries routine stock and obtains special orders from warehouses. It differs from a convenience store or corner shop in that it will be the main shop for the community rather than a convenient supplement.

Bodeguita comes from the Spanish language as a diminutive of *bodega* which means "small store" or "small warehouse". Traditionally, Bodeguita existed selling general merchandise, then they were replaced slowly by the chain store, the same way large US chains have practically eliminated the "mom and pop" store.

General stores often sell staple food items such as milk and bread, and various household goods such as hardware and electrical supplies. The concept of the general store is very old, and although some still exist, there are far fewer than there once were, due to urbanization, urban sprawl, and the relatively recent phenomenon of big-box stores.

Australia

While a large number of general stores still exist in Australia, as in other parts of the world their numbers were greatly reduced by the advent of supermarkets.

Notes

Canada

In Canada the French term *dépanneur* is used for a general store in the province of Quebec. The oldest continually run general store in Canada is Trousdale's, located in Sydenham, Ontario, which has been operated by the Trousdale family since 1836.

United Kingdom

Village shops have become increasingly rare in the densely populated parts of England, although they remain common in remote rural areas of Scotland, Wales and Northern Ireland along with some lesser populated areas of England such as North Yorkshire, Northumberland and the Lake District.

Their rarity in England is due to several factors, such as the rise in car ownership, competition from large chain supermarkets, the rising cost of village properties, and the increasing trend of the wealthy to own holiday homes in picturesque villages, consequently houses which used to be occupied full-time are often vacant for long periods.

Of those villages in England who still have shops, these days they are often a combination of services under one roof to increase the likelihood of profit and survival. Extra services may include a post office, private business services such as tearooms, cafes, and bed and breakfast accommodation; or state services such as libraries and General Practitioner (GP) or Dental clinics; and charity partners such as Women's Institute (WI) coffee mornings held on the day most elderly villagers might collect their weekly pensions.

Some villages now have neither shop nor post office, but the village pub has largely survived (although recent economic downturns and changed drinking laws have begun to impact upon and change the survival of even this village stalwart and these often function as small shops or post offices as well. Many village pubs have become notable dining experiences, attracting trade from their villagers, tourists and nearby town dwellers with their trendy chefs or local produce/ organic menus. In village areas close to Towns and Cities with a modern, mixed ethnic picture, out of town dining experiences of an ethnic kind have become popular in former pub premises. Most notable are large Indian and Chinese restaurants in areas such as Leicestershire, in the English East Midlands.

Community shops have become popular in some villages, often jointly owned and run by many villagers as a co-operative. The Village Retail Services Association promotes the role and function of the village shop in the UK. Many modern village shops choose to stock items which draw in customers from neighbouring areas who are seeking locally sourced, organic and specialist produce such as local cuts of meat, local cheeses, wines etc.

In towns and cities, the **corner shop** has largely survived by dominating the local and light night convenience market.

The 1970s saw the death of the traditional grocery shop, which would have once dominated in the kind of buildings most corner shops operate from today, such old traditional family grocery stores began to face competition on two fronts: on the one hand from immigrant-owned corner shops, trading longer hours (typically British Asian families), and on the other from the rise of the supermarket, which amalgamated many specialist retailers such as butchers, bakers, and grocers under one roof at increasingly cheaper prices and with room for a greater choice of products. With the gradual loss of the traditional grocers came the loss of many aspects of old British shopping culture such as grocery deliveries and being enabled to have a "Tic" account with the grocer, a form of unofficial advanced credit. The cornershop is now much more the local convenience shop than the family grocer of days gone by.

Cornershops are usually so called because they are located on the corner plot or street end of a row of terraced housing, often Victorian or Edwardian factory workers' houses. The doorway into the shop was usually on the corner of the plot to maximise shop floor space within, this also offered two display windows onto two opposing streets. Many have now altered the original shop front layout in favour of a mini-supermarket style. Although it is common that cornershops found in the UK were former grocer shops, other specialist retailers also occupied such slots and have suffered the same fate of being largely replaced by super and hypermarkets, such retailers as green grocers, bakers, butchers and fishmongers.

In Popular Culture

Many British TV and Radio series, especially soap operas, feature corner shops or village shops as cornerstones for community gatherings and happenings. Prominent examples are the Village shop in Ambridge, the fictional village in the BBC Radio 4 series, *The Archers*, (1950–present day). Or the ITV1 soap opera *Coronation Street* (1960–present day) featuring a cornershop; it was owned, until recently, by Alf Roberts the grocer and after his death in the late 1990s was bought by Dev Alahan, reflecting this common change in British culture. The dying days and changing culture of the traditional British grocer was explored to great effect in the BBC TV comedy series. *Open All Hours* (1976–1985), set in the real suburb of Balby in Doncaster, the shop front used for the street scenes in the series does actually exist in the area and is a hair salon in reality. The BBC Scotland comedy series *Still Game* has a corner shop as a recurring location where characters can meet and gossip; the actor who plays its owner, Navid Harris (Sanjeev Kohli), plays a similar role as Ramesh in the Radio 4 comedy series *Fags, Mags and Bags* which is set entirely in Ramesh's shop.

The band Cornershop in part base their image on the perception that many convenience stores are now owned by British Asian people. In terms of British popular culture these media representations give some idea of the importance attached to local shops in the national psyche and as a mainstay of community life.

United States

Grays General Store (1788) in Adamsville, Rhode Island was purportedly the oldest continuously operating general store in the United States.

During the first half of the 20th century, general stores were displaced in many areas of the United States by many different types of specialized retailers. But from the 1960s through present, many small specialized retailers are in turn crushed by the so-called "category killers", which are "big-box" wholesale-type retailers large enough to carry the majority of best-selling goods in a specific category like sporting goods or office supplies.

However, the convenience inherent in the general store has been revived in the form of the modern convenience store and the hypermarket, which can be seen as taking the general store or convenience store concept to its largest possible implementation.

Self Assessment

Fill in the blanks:

8. A general store, general merchandise store, general dealer or village shop is a rural or small town store that carries a general line of ....
9. .... shops have become popular in some villages, often jointly owned and run by many villagers as a co-operative.

Notes

10. During the first half of the 20th century, general stores were displaced in many areas of the .... by many different types of specialized retailers.

3.9 Service Retailing

Destination stores are creating a lot of buzz at present. The concept is picking up slowly but steadily in the Indian retail sector, with this new retailing model already increasing footfalls in many of the country's retail stores, consequently increasing the inflow of revenue for the retail stores.

A combination of various categories of stores, the destination stores are giant-sized retail stores catering to the mass merchandiser with its wide array of services. It offers low-priced products of a discount store as well as provides varieties of a departmental store. The services offered by destination stores attract and compel customers to travel long distances to shop and enjoy the luxury of these stores.

Already an established and popular concept in the international market, destination stores are comparatively new in India. The model adopted by retailers here to run destination stores is hybrid in nature, where the retailers sometimes run the stores themselves and sometimes tie-up with established players to offer additional services.

"Service retailing is a concept that most Indian retailers are now aiming at as it increases footfalls and revenue earnings. With competition increasing in the market, retailers are now trying to woo their customers through these kinds of stores where they can offer them an array of products and a variety of services. This is an absolute win-win model for both retailers and buyers alike," said Kumar Rajagopalan, CEO of the Retailers' Association of India to a Retailing 360 correspondent.

Big Names in Service Retailing

Many big players in the domestic retail sector have already initiated the model and are reaping benefits now. Names such as Future Group, Spencer's Retail, Aditya Birla Group and Hypercity, among others are already following the model and have transformed their large format retail stores into service-oriented destination stores offering a gamut of consumer-oriented facilities.

Sharing her opinion on this score, Shakuntala Sarkar, senior manager - Corporate Communications, Spencer's Retail Limited, said, "Adopting such methods improves store-client relationship. This also increases consumer loyalty towards the store. In fact, service retailing has pushed up the sector's revenue by 25-30%. It is increasingly becoming very popular and in the days to come might become a major tool to attract customers."

According to the retail industry experts, the concept of service retailing however is at a nascent stage in India at present. Its presence is felt primarily in the metros and other big cities of the country. However, experts are hopeful that it would pick-up well across India in the coming days, with more and more retailers joining in to offer specialised services.

Additional Services

The plethora of specialised services offered by destination stores generally range from financial services to laundry, salons, spa, travel services and others. For instance, in a number of Spencer's Retail outlets, there are corners dedicated to wine, cigar, flower, gourmet, bakery, pet care and others, while Future Group has started operating a salon under its brand.

Hypercity, on the other hand, caters to book lovers through its bookstores under its own label Crossword. It has forged partnerships with a number of names such as Vodafone, Presto and

Jyothy Fabrics, Enrich Salon and Pinks & Bloos, Café Coffee Day, Orchid Thai Spa and Kodak to offer a plethora of services to its customers.

3.10 Types of Ownership

Entrepreneurs have many forms of retail business ownership available to them. Each business model has its own list of pros and cons. Choosing a type of retail business to start will depend on why you want to own a business, as well as your lifestyle, family, personality, basic skills and much more. Here are a few of the main types of retail ownership and the advantages, disadvantages, and support system of each.

There are five types of Retail ownership:

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

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

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

   Support: Other than small business resources online, in print or sponsored by the various government and trade organizations, there isn't much in the way of support for the independent retailer.

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

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

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

   Support: A well-established business will usually have a written set of procedures or policy manual. Staff members already in place have the knowledge to help guide a new owner.

3. ***Franchise:*** Purchasing a franchise is buying the right to use a name, product, concept and business plan. The franchisee will receive a proven business model from an established business.

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

Advantages: All of the business operation processes have been established. The franchisee receives help from a network and customers may already familiar with the name. The marketing strategy has already been put in place. Most all of the risk associated with starting a retail business has been reduced.

Disadvantages: Franchisees pay a fee, or royalty, based on sales each year. Startup costs relating to the franchise may be high. One of the biggest disadvantages of owning a franchise is the lack of flexibility and freedom.

Support: Franchisors usually provide all the marketing, training and ongoing support needed to run a successful business.

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

   Advantages: Generally very little startup funding is needed to operate this type of business. Network marketing provides freedom from conventional retailing businesses and offers a greater interaction with all types of people. For those willing to invest the time, huge profits can be made.

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

   Support: Most network marketing systems offer motivational materials, training and support.

Caution The two terms customer service and service retailing are not interchangeable.

3.11 Retail Channels

A channel of distribution or trade channel is defined as the path or route along which goods move from producers or manufacturers to ultimate consumers or industrial users. In other words, it is a distribution network through which producer puts his products in the market and passes it to the actual users. This channel consists of :- producers, consumers or users and the various middlemen like wholesalers, selling agents and retailers (dealers) who intervene between the producers and consumers. Therefore, the channel serves to bridge the gap between the point of production and the point of consumption thereby creating time, place and possession utilities.

A channel of distribution consists of three types of flows:

1. Downward flow of goods from producers to consumers
2. Upward flow of cash payments for goods from consumers to producers
3. Flow of marketing information in both downward and upward direction i.e. Flow of information on new products, new uses of existing products, etc. from producers to consumers. And flow of information in the form of feedback on the wants, suggestions, complaints, etc from consumers/users to producers.

An entrepreneur has a number of alternative channels available to him for distributing his products. These channels vary in the number and types of middlemen involved. Some channels are short and directly link producers with customers. Whereas other channels are long and indirectly link the two through one or more middlemen.

These channels of distribution are broadly divided into four types:

1. ***Producer-Customer:*** This is the simplest and shortest channel in which no middlemen is involved and producers directly sell their products to the consumers. It is fast and economical channel of distribution. Under it, the producer or entrepreneur performs all the marketing activities himself and has full control over distribution. A producer may sell directly to consumers through door-to-door salesmen, direct mail or through his own retail stores. Big firms adopt this channel to cut distribution costs and to sell industrial products of high value. Small producers and producers of perishable commodities also sell directly to local consumers.
2. ***Producer-Retailer-Customer:*** This channel of distribution involves only one middlemen called 'retailer'. Under it, the producer sells his product to big retailers (or retailers who buy goods in large quantities) who in turn sell to the ultimate consumers. This channel relieves the manufacturer from burden of selling the goods himself and at the same time gives him control over the process of distribution. This is often suited for distribution of consumer durables and products of high value.
3. ***Producer-Wholesaler-Retailer-Customer:*** This is the most common and traditional channel of distribution. Under it, two middlemen i.e. wholesalers and retailers are involved. Here, the producer sells his product to wholesalers, who in turn sell it to retailers. And retailers finally sell the product to the ultimate consumers. This channel is suitable for the producers having limited finance, narrow product line and who needed expert services and promotional support of wholesalers. This is mostly used for the products with widely scattered market.
4. ***Producer-Agent-Wholesaler-Retailer-Customer:*** This is the longest channel of distribution in which three middlemen are involved. This is used when the producer wants to be fully relieved of the problem of distribution and thus hands over his entire output to the selling agents. The agents distribute the product among a few wholesalers. Each wholesaler distribute the product among a number of retailers who finally sell it to the ultimate consumers. This channel is suitable for wider distribution of various industrial products.

An entrepreneur has to choose a suitable channel of distribution for his product such that the channel chosen is flexible, effective and consistent with the declared marketing policies and programmes of the firm. While selecting a distribution channel, the entrepreneur should compare the costs, sales volume and profits expected from alternative channels of distribution and take into account the following factors:

Product Consideration

The type and the nature of products manufactured is one of the important elements in choosing the distribution channel. The major product related factors are:

1. Products of low unit value and of common use are generally sold through middlemen. Whereas, expensive consumer goods and industrial products are sold directly by the producer himself.
2. Perishable products; products subjected to frequent changes in fashion or style as well as heavy and bulky products follow relatively shorter routes and are generally distributed directly to minimise costs.

3. Industrial products requiring demonstration, installation and after-sales service are often sold directly to the consumers. While the consumer products of technical nature are generally sold through retailers.
4. An entrepreneur producing a wide range of products may find it economical to set up his own retail outlets and sell directly to the consumers. On the other hand, firms producing a narrow range of products may their products distribute through wholesalers and retailers.
5. A new product needs greater promotional efforts in the initial stages and hence few middlemen may be required.

Market Consideration:- Another important factor influencing the choice of distribution channel is the nature of the target market. Some of the important features in this respect are:

1. If the market for the product is meant for industrial users, the channel of distribution will not need any middlemen because they buy the product in large quantities. Short one and may as they buy in a large quantity. While in the case of the goods meant for domestic consumers, middlemen may have to be involved.
2. If the number of prospective customers is small or the market for the product is geographically located in a limited area, direct selling is more suitable. While in case of a large number of potential customers, use of middlemen becomes necessary.
3. If the customers place order for the product in big lots, direct selling is preferred. But, if the product is sold in small quantities, middlemen are used to distribute such products.

Other Considerations

There are several other factors that an entrepreneur must take into account while choosing a distribution channel. Some of these are as follows:

1. A new business firm may need to involve one or more middlemen in order to promote its product, while a well established firm with a good market standing may sell its product directly to the consumers.
2. A small firm which cannot invest in setting up its own distribution network has to depend on middlemen for selling its product. On the other hand, a large firm can establish its own retail outlets.
3. The distribution costs of each channel is also an important factor because it affects the price of the final product. Generally, a less expensive channel is preferred. But sometimes, a channel which is more convenient to the customers is preferred even if it is more expensive.
4. If the demand for the product is high, more number of channels may be used to profitably distribute the product to maximum number of customers. But, if the demand is low only a few channels would be sufficient.
5. The nature and the type of the middlemen required by the firm and its availability also affects the choice of the distribution channel. A company prefers a middlemen who can maximise the volume of sales of their product and also offers other services like storage, promotion as well as after-sales services. When the desired type of middlemen are not available, the manufacturer will have to establish his own distribution network.

All these factors or considerations affecting the choice of a distribution channel are interrelated and interdependent. Hence, an entrepreneur must choose the most efficient and cost effective channel of distribution by taking into account all these factors as a whole in the light of the prevailing economic conditions. Such a decision is very important for a business to sustain long term profitability.

Task Discuss about different types of Retail Channels.

3.12 Benefits of Multi-channel Retailing

Creating a successful multi-channel experience can seem intimidating to many retailers, who may wonder if the effort is worth it. They may not have a choice, however. "Consumers are expecting this kind of integration already," said Ron Bowers, senior vice president of **Frank Mayer and Associates**, a Grafton, Wis.-based merchandising company. "They expect that if they order an item online, they can return it in the store, that kind of thing. It's up to retailers to make sure that expectation is met."

But multi-channel retailing offers plenty of benefits to retailers, benefits that make investing in the strategy worthwhile.

Improved Customer Perception

"Channels are disintegrating for customers," said Jeremy Gustafson, vice president at KSC Kreate, a digital commerce agency based in Hollywood, Fla. "People are watching television and using their tablet at the same time. They expect the same kind of integration with their shopping experience."

Brands who don't provide that kind of experience, he said, are likely to lose customers, especially as the digital generation gains even more buying power.

Stores who do create a seamless experience that integrates all different forms of technology, however, can gain significant customer loyalty. Those brands are perceived as forward-thinking and responsive to customer's needs — qualities that will keep customers coming back.

That improved perception offers another advantage, as well. In a world of big-box stores and online shopping, finding the best price is easier than ever for customers. A store that is perceived as responsive to customer needs and gives customers easy access to a variety of channels can differentiate itself in a crowded field. That allows the brand to compete on the experience offered, rather than just price. Customers might be willing to pay a little more for the convenience, and will come back repeatedly, and brands don't have to slice their profits just to keep up.

Increased Sales

The primary driver for a retailer adopting any strategy is, of course, increasing profit, most frequently by increasing sales. Multi-channel retailing, by offering a variety of engagement points for the customer to make a purchase, increases the convenience and ease of sales, thus boosting profit.

A customer who thinks about buying a pair of pants, for example, may not want to drive to the mall, park, walk to the store, find the pants and try them on. For that customer, she can go online at home and order the pants from the store's website. Another customer, however, might be in the store trying on the pants and decide she'd like them in a different color. In that case, she can use an in-store kiosk to find the pants in the preferred color, order them and have them delivered to her home. Still another customer can use her smartphone to take a picture of the pants, send it to a friend and discuss whether to purchase them or not. Having a variety of engagement points gives retailers more tools to make a sale.

Better Data Collection

Knowing the customer is a key tenant for successful retailing, and multi-channel engagement points provide more opportunities to gather information about customers.

Notes

There are two benefits to the data collection offered by multi-channel retail: First, the possibility for gathering more information exists, and the information can be used more effectively.

“People usually are more comfortable entering information themselves, rather than giving it to a salesperson,” said Steve Deckert, marketing manager for Sweet Tooth, a Toronto-based provider of loyalty programs to retailers. “So they are far more likely to enter their email address into a kiosk than give it to a cashier. At the same time, by having that information available across a variety of channels, the retailer has more opportunities to capture the information, and more of it.”

If a retailer can track what a customer is purchasing, and where, more targeted marketing can be introduced. Someone who tends to browse online and then purchase in-store, for example, can be emailed an invitation to a private showing in a store, and the list of products to be shown can be sent before the event, increasing the likelihood of purchase.

Not only is it more likely that the customer will provide important information, but if all the different channels are communicating, then the information only needs to be entered once.

“If you’re going to ask someone for information about themselves, it needs to be available whenever they come to you,” said Verizon’s Bagel. “Otherwise, it feels intrusive and annoying to have to repeat the same information over and over again.”

Enhanced Productivity

Multi-channel retailing offers benefits for more than shoppers. Workers, too, can benefit from the use of new technology, by arming them with more information and increasing their efficiency.

A tablet, for example, frees employees from the point-of-sale system, instead allowing them to carry the register with them. Employees can go directly to the aid of customers, helping them to find out what is in stock, what is available at other stores and when new products might be launching. The tablet also can contain information about the loyalty program, so a frequent customer can be given VIP status. Then, when a purchase is ready to be made, the customer does not have to stand in line, but rather can simply continue talking to the salesperson and make her purchase via tablet.

Best Practices

While every type of channel has its own unique set of challenges, there are some strategies that are true across all engagement points.

Be consistent. Messaging across all channels should have the same look and feel; the customer should always know exactly what brand she is interacting with.

“Traditionally, retailers have approached each channel individually,” said Gustafson. “What is needed, though, is to create a single marketing message, and then figure out how to deploy it across all channels. The messaging doesn’t have to be identical, but it all needs to be clearly related.”

Provide a value-add. Make sure each engagement point offers something to the customer. An in-store kiosk that simply accesses the company’s website, for example, is not bringing anything unique to the customer; instead, she can check the website at home, on her own. The same is true of a tablet. If the salesperson with the tablet does not have access to more or better information than the customer can access via her own tablet or smartphone, the application will not bring much value to the transaction.

Security. There is a fine line between being helpful and being intrusive, and it’s a line that is easily crossed. Customers are aware of security issues, and are wary of providing too much personal information.

"There has to be a clear connection between the information collected, how it's used and what value the customer receives from it," said Bagel. "Understand your brand strategy and what level of intimacy is appropriate. Depending on your clientele, privacy might not be as important — digital natives tend to be far less concerned with privacy than Baby Boomers, for example. But everyone wants to know that they will receive a benefit from giving you information."

Be committed. Multi-channel retailing requires an investment in time and money. There needs to be a clear strategy across all teams, and cooperation is critical to success.

"In order to have totally seamless solution, all stakeholders need to be involved, giving their insight and taking ownership and having support and understanding as to what is being done, why and how," said Bowers. "This is not a sometime commitment; this is a total marketing strategy for the retailer to invest in the future of the customer acquisition, retention process and loyalty programs."

Note Strategy is not appropriate for every retailer. Not all retailers possess the financial and managerial resources to do so or have the same potential synergies.

Self Assessment

State whether the following statements are true or false:

11. Multi-level marketing (MLM) or network marketing is a business model where the selling of products depends on the people in the network.
12. The smallest advantage to buying an existing business or taking ownership of an already-established retail store is time.
13. Multi-channel retailing requires an investment in time and money.
14. The primary driver for a retailer adopting any strategy is, of course, increasing profit, most frequently by increasing sales.
15. Multi-channel retailing offers benefits for more than retailers.

3.13 Challenges of Effective Multi Channel Retailing

One of the things that it is important to realize is that the multichannel concept is not a clever invention driven by retailers, but rather a reflection of the changes that are happening all around us, driven by consumer behavior.

Access to the internet is becoming a commodity; home broadband connectivity comes free with your mobile package, your TV subscription or landline agreement, and mobile internet access is part of most mobile phone packages these days.

One of the effects of this increased 'ease of access' is a significant surge in popularity of everything internet enabled, even people's social lives. We have all seen stats that 'we' now spend more time on social networks than on email or even TV. These are fundamental changes to how we live our lives, but for some, especially older, generations still hard to fathom.

One of the things enabled by the internet is immediacy and the amount of data and services we have access to - you don't have to wait for feedback from someone anymore, any question can be answered immediately via Google, and if you're looking for a particular product or product information, the internet will be able to tell you more than (unfortunately) most shop assistants can.

The customer knows this and they have made up their mind, they love the web-enabled world and they will shop with the retailer that operates in the world they live in.

Their preferred retailer provides what they want, how they want it and when they want it and engages with them through the channels that they want to engage through; online, in store, mobile, catalogue, call centre. During the purchase journey the consumer will select their preferred way of satisfying their needs.

They may gather product information out of a catalogue, online or in store, check product availability over the phone or online, use their mobile to order online and have the item home delivered or reserved for in-store pick-up an hour later.

The single channel purchase journey is almost extinct. And this shift in consumer behaviour has fundamentally changed one of the retailer's fundamental activities - conversion. No longer is this something that we can focus on a single channel, it needs to be addressed across a journey that spans multiple channels. And this is where things get interesting.

What do we have to put in place in order to make consumers convert across multiple channels?

Consider the following four elements in a multichannel context in addition to the traditional success factors such as a good product, good service and reasonable pricing:

Consistency

A user journey that allows the consumer to access the same consistent data regardless of the channel they use. Lack of consistency will lead to confusion, lack of trust and abandonment as a result.

Although a challenge, consistency is necessary across multiple channels simultaneously, and not just product information, but pricing, promotions, services on offer, stock availability and historic order information.

Relevancy

In a world where we are swamped with information on a daily basis, providing relevant information is a must. However, we now need to add to the mix not only content related to what a customer wants to buy, but also how they want to buy it.

If I know that a particular user prefers to complete their shopping journey in the store should I continue to try to convert them online, or should I provide them with the easiest possible way to get them to their local store...?

Understand Customer Behaviour Across Channels

In order to influence the consumer journey across the channels retailers need, first and foremost, to be able to understand how a customer behaves across all journeys, in a single place ideally. (Yes, 'single view of the customer' is back on the agenda).

Once you have gained an understanding, the next step will be to use this understanding efficiently and start optimising conversion across multiple channels within a single purchase journey.

Adapt to Change

Last, but not least; in order to give your multichannel plans some longevity, you will need to be ready for change, in your organisation, processes and systems. One thing is for sure; we are not there yet with multichannel.

It is different from our traditional approach to selling already and no doubt it will continue to shape itself; new channels will emerge, propositions will evolve, solutions will change.

Make sure you are ready for that change and you are ready to respond. Change is happening at a faster pace than ever, and if you are not ready to adapt you will be losing out.

Case Study

Prateek Apparels-F-Square: An Introduction

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

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

Prateek Apparels Pvt. Ltd. Retail Division established in 2007 exclusively concentrates on the value retail segment of the Indian market. Prateek Apparels has an admirable name in the retail segment and currently operates 7 Coupon stores at the following locations Bangalore, Chhattisgarh, Hyderabad, Calicut, and Faridabad and will be adding 2 more during this fiscal. A full-fledged apparel manufacturing unit, begun in 1995, Prateek Apparels now boasts of clientele of leading brands including Westside, John Players, Levi's, Dockers, Lee, Wrangler, Van Heusen, Cottons by Century among others. From concept to design Prateek Apparels provides value-adds at every stage. Taking on a comprehensive approach, the company's services include brand research, fashion forecast, brand communication, design and product development, merchandising client interface, sourcing, production, planning and control, manufacturing and quality assurance. Coupon stores were started with an exclusive idea of providing a wholesome shopping experience to the entire family. Coupon stores are the large format stores (10000-45000 sq ft) capable of housing over 200 national and international brands offering a discount of 10-60% throughout the year. Coupon is hugely popular for its wide assortment and variety of brands, departments, categories, and products altogether providing a complete family shopping experience. With a view to further strengthen and to expand the horizons in the value retail market, Prateek Apparels has launched the concept of small format value fashion stores in 2009 under the name FSQUARE. While Coupon features well known brands, F Square will only sell the company's private labels and will be positioned as a local neighborhood family store.

F-Square Brands

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

Contd....

Notes

1. Locomotive: My style

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

2. Highlander: Easy confidence

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

3. Mark Taylor: Buttoned up

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

4. Black Coffee: Big business with style

   Premium formal trousers and shirts for man in command.

F-Square Operations

F-square operates under the value retail format. Value retail is the recent buzzword with many established and new players adopting the model. Value retail format is a type of retail format where customers can buy products at lower prices with better quality. The main aim of F-square is to come out with combo price offers to create complete wardrobe solutions and offer unbeatable value and create the concept of pocket money shopping. The F-square customer is a Mass Indian male, 18 to 30 years seeking fashion at value. The customer seeks attractive price point and F-square merchandise is affordably priced in the range of ₹ 99–₹ 699 with almost 80% of the merchandise under ₹ 499. F-square has its own outlets and also follows franchisee model. It is present only in Karnataka and has not penetrated into other markets still. There is terrific competition in this segment and the stores competing with F-square are Megamart from Aravind retail, Brand factory from Pantaloons retail India Ltd, Big bazaar, Star bazaar and Trent from the Tata group and other regional players. Many customers have started preferring value retails compared to other retail formats which is the reason why the competition is increasing day by day. The company takes lots of measures to increase the visibility of the stores. The choice of location for F-square is linked to the core objectives of brand building by reach and market potential. Hence the stores are generally located in prime localities like near bustling street markets and shopping streets, value for money environments, hypermarkets, high streets and swank malls where there are large footfalls. Currently there are more than 100 stores in Karnataka in all prime locations. Visual merchandising plays a very important role in retailing and this is carried out by F-square in a very well planned manner. The store also comes out with lots of special offers and discounts regularly to attract more customers. Regional and National newspapers serves as an important media vehicle to communicate the offers to the customers along with local celebrity endorsement. The store also comes out with sudden offers with attaching a time period to it. For example it comes out with 50% off for 48 hours, Buy 1 and get 2 free in 24 hours etc. The store gets its inventories directly from its parent company- Prateek group. The store also provides training to the employees joining them to better serve the customers. The company is in the rapid expansion mode with a plan to open 100 F-square stores in this fiscal. It's planning to double its turnover to touch ₹ 700 crore with 240 F-square stores by the end of year 2014.

Question:

Describe the business model of F-Square.

Source: www.novonous.com

3.14 Summary

- A retail business that sells products or services that appeal to customers' needs has the ability to stand up against competition.
- Price, convenience and store experience are functional characteristics that make up a strong retail brand.
- The latter half of the 20th Century, in both Europe and North America, has seen the emergence of the supermarket as the dominant grocery retail form.
- Saturated home markets, fierce competition and restrictive legislation have relentlessly pushed major food retailers into the globalization mode.
- The global retail industry has travelled a long way from a small beginning to an industry where the world wide retail sales alone is valued at $ 7 trillion.
- Organized retailing is spreading and making its presence felt in different parts of the country.
- India is world's second largest grower of fruits and vegetables after Brazil and China.
- Economic growth at over 5.5% over the last eight years, forex reserves of over $100 billions and a stable government has helped India to look more progressively towards future.
- Retailing, one of the largest sectors in the global economy, is going through a transition phase in India.
- Organized retailing is spreading and making its presence felt in different parts of the country.

3.15 Keywords

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

Multi Level Marketing: Multilevel marketing (MLM) or network marketing is a business model where the selling of products depends on the people in the network.

Producer-Agent-Wholesaler-Retailer-Customer:-This is the longest channel of distribution in which three middlemen are involved.

Producer-Customer: This is the simplest and shortest channel in which no middlemen is involved and producers directly sell their products to the consumers.

Producer-Retailer-Customer: This channel of distribution involves only one middlemen called 'retailer'. Under it, the producer sells his product to big retailers (or retailers who buy goods in large quantities) who in turn sell to the ultimate consumers.

Producer-Wholesaler-Retailer-Customer: This is the most common and traditional channel of distribution.

Trade Channel: A channel of distribution or trade channel is defined as the path or route along which goods move from producers or manufacturers to ultimate consumers or industrial users.

Notes

3.16 Review Questions

1. Discuss the retailer characteristics in India.
2. Explain food retailers.
3. Discuss the food retail in India.
4. Describe the key driver of food retail in India.
5. Explain the evolution of organized retailing.
6. What is the impact of organized retail in India?
7. Describe the general merchandise retailers.
8. Discuss service retailing.
9. Explain the different types of ownership.
10. What are the challenges of effective multi-channel retailing?

Answers: Self Assessment

1. Retail
2. India
3. Economic
4. Global
5. Retailing
6. Organized
7. Sixth
8. Merchandise
9. Community
10. United States
11. True
12. False
13. True
14. True
15. False

3.17 Further Readings

Books

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

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

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

Online links

http://www.publishyourarticles.net/knowledge-hub/business-studies/who-is-a-retailer-what-are-the-characteristics-functions-and-services-of-a-retailer.html

http://www.eolss.net/Sample-Chapters/C10/E5-15-01-06.pdf

www.iasms.in/pdf/nationalseminar.pdf

http://www.econjournals.com/index.php/irmm/article/download/18/14

Unit 4: Retail Buying Behaviour

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Objectives

After studying this unit, you will be able to:

- Define the buying process
- Discuss about the buying decisions
- Explain about the social factors influencing the buying process

Introduction

The core function of the marketing department is to understand and satisfy consumer need, wants and desire. Consumer behaviour captures all the aspect of purchase, utility and disposal of products and services. In groups and organization are considered within the framework of consumer. Failing to understand consumer behaviour is the recipe for disaster as some companies have found it the hard way. For example, Wal-Mart launched operations in Latin-America with store design replicating that of US markets. However, Latin America consumer differs to US consumer in every aspect. Wal-Mart suffered consequences and failed to create impact.

Consumer buying behaviour is influenced by individual's own personality traits. These personality traits do not remain the same but change with the life cycle. The choice of occupation and corresponding income level also play part in determining consumer behaviour. A doctor and software engineer both would have different buying pattern in apparel, food automobile etc. Consumers from similar background, occupation and income levels may show a different lifestyle pattern.

An individual buying behaviour is influenced by motivation, perception, learning, beliefs and attitude. These factors affect consumer at a psychological level and determine her overall buying behaviour. Maslow's hierarchy, Herzberg Theory and Freud Theory try and explain people different motivational level in undertaking a buying decision. Perception is what consumer understands about a product through their senses. Marketers have to pay attention to consumer's perception about a brand rather than true offering of the product. Learning comes from experience; consumer may respond to stimuli and purchase a product. A favorable purchase will generate positive experience resulting in pleasant learning. Belief is the preconceived notion a consumer has towards a brand. It is kind of influence a brand exerts on consumer.

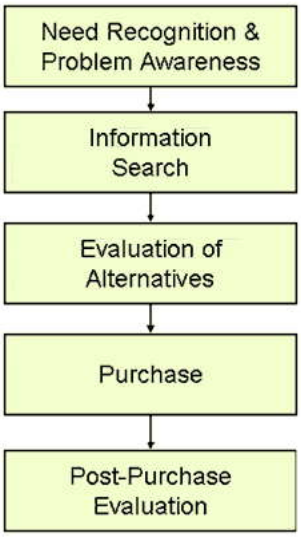
Notes

Notes It is important to identify the role that your product can play in retailers' assortments: is it because it is unique, low cost, fast supply due to high manufacturing flexibility or whatever other particular reason.

4.1 The Buying Process

Research suggests that customers go through a five-stage decision-making process in any purchase. This is summarised in the diagram below:

Figure 4.1: Five Stage Decision-making Process


Need Recognition & Problem Awareness
Information Search
Evaluation of Alternatives
Purchase
Post-Purchase Evaluation

This model is important for anyone making marketing decisions. It forces the marketer to consider the whole buying process rather than just the purchase decision (when it may be too late for a business to influence the choice!)

The model implies that customers pass through all stages in every purchase. However, in more routine purchases, customers often skip or reverse some of the stages.

For example, a student buying a favourite hamburger would recognise the need (hunger) and go right to the purchase decision, skipping information search and evaluation. However, the model is very useful when it comes to understanding any purchase that requires some thought and deliberation.

The buying process starts with need recognition. At this stage, the buyer recognises a problem or need (e.g. I am hungry, we need a new sofa, I have a headache) or responds to a marketing stimulus (e.g. you pass Starbucks and are attracted by the aroma of coffee and chocolate muffins).

An "aroused" customer then needs to decide how much information (if any) is required. If the need is strong and there is a product or service that meets the need close to hand, then a purchase decision is likely to be made there and then. If not, then the process of information search begins.

Notes

A customer can obtain information from several sources:

1. Personal sources: family, friends, neighbours etc.
2. Commercial sources: advertising; salespeople; retailers; dealers; packaging; point-of-sale displays
3. Public sources: newspapers, radio, television, consumer organisations; specialist magazines
4. Experiential sources: handling, examining, using the product

The usefulness and influence of these sources of information will vary by product and by customer. Research suggests that customers value and respect personal sources more than commercial sources (the influence of "word of mouth"). The challenge for the marketing team is to identify which information sources are most influential in their target markets.

In the evaluation stage, the customer must choose between the alternative brands, products and services.

Caution In most countries, concentration is typically high on the buyer side than the seller side.

How does the customer use the information obtained?

An important determinant of the extent of evaluation is whether the customer feels "involved" in the product. By involvement, we mean the degree of perceived relevance and personal importance that accompanies the choice.

Where a purchase is "highly involving", the customer is likely to carry out extensive evaluation.

- **High-involvement purchases** include those involving high expenditure or personal risk – for example buying a house, a car or making investments.
- **Low involvement purchases** (e.g. buying a soft drink, choosing some breakfast cereals in the supermarket) have very simple evaluation processes.

Why should a marketer need to understand the customer evaluation process?

The answer lies in the kind of information that the marketing team needs to provide customers in different buying situations.

In high-involvement decisions, the marketer needs to provide a good deal of information about the positive consequences of buying. The sales force may need to stress the important attributes of the product, the advantages compared with the competition; and maybe even encourage "trial" or "sampling" of the product in the hope of securing the sale.

Post-purchase evaluation - Cognitive Dissonance

The final stage is the post-purchase evaluation of the decision. It is common for customers to experience concerns after making a purchase decision. This arises from a concept that is known as "cognitive dissonance". The customer, having bought a product, may feel that an alternative would have been preferable. In these circumstances that customer will not repurchase immediately, but is likely to switch brands next time.

To manage the post-purchase stage, it is the job of the marketing team to persuade the potential customer that the product will satisfy his or her needs. Then after having made a purchase, the customer should be encouraged that he or she has made the right decision.

4.2 Process of Vendor Development

To get an idea of the activities and tasks involved in developing new Supplier Network, we shall discuss briefly the process of Vendor development.

Identify Supplier

The first task starts with gathering market information and identifying the Suppliers who may be available locally or overseas. We must assume that in current times with globalisation, the suppliers are mostly situated in developing countries and in markets like China, S.E Asia etc. where the cost of production and labour are less. The Merchandiser can obtain the information from various trade journals, trade directories, internet and more importantly from Trade Exhibitions as well as from the competition. On the other hand, major suppliers are likely to embark on a marketing spree and thereby contact the Merchandiser as a potential customer.

Assess the Supplier Capability

Different International Retailers follow different internal processes for validating and assessing the capability of the Supplier. At the early stages, detailed information about the Supplier's Organisation, Management, Technical and Production Capability, Details on quality and history of business relations and performance etc are sought in the form of Presentation and documentation.

Caution Actual Purchasing is only one stage of the process. Not all decision processes lead to a purchase.

Visit to Supplier Site and Assessment

Once the Supplier submits or presents the marketing and other information, the Merchandiser with his team [involving technical, quality and marketing] undertakes a visit to the Supplier site to assess the capability and obtain firsthand information. Multi National Retail Companies normally follow strict rules regarding ethical practices and human resource management including safety and health and expect the Suppliers to follow the same. Site visits help the Companies assess not only the Supplier's technical and production capabilities but understand its management and work culture as well as its adherence to the ethical and moral principles as well as legislation and HR policies. Suppliers who are serious about their business and in seeking to service such International Retail Companies will ensure that they set up and follow international standards that are acceptable to the Buyers.

Sample Submission

On completion of Supplier site visit, if the Merchandiser and his team accept the Supplier's capability, they are likely to engage the Supplier in the next stage of sample design development and submission of trial samples. Such trials can be exhaustive involving the technical and quality teams from both sides. In fashion industry, the design and sample submission is very critical in terms of quality as well as time. The sample batch of products submitted are released to the market to obtain customer feedback or sometimes evaluated internally by the Buyer's team. In most cases the Merchandiser provides the detailed product specification, design, quality and branding details to the Supplier and expects total compliance accordingly.

Task Discuss about Sample Submission.

Commercial Negotiations

On successful submission of trial samples and acceptance by the Buyer and the Buyer being convinced of the Intent, capability and quality of the Supplier engages the Supplier into commercial negotiations. Generally the Merchandiser will provide Buyer's agreement document along with details of Terms of Contract detailing, Order Quantity, Delivery Expectations, Delivery Mode, Pricing, Terms of Payment, and Procedure for acceptance of delivery, time cycle for payment, mode of payment etc. Negotiations that ensue will cover commercial agreements including order quantities for a certain period or season, discounts, advances etc.

Trial Procurement and Normal Procurement

On acceptance of the commercial terms between the Buyer and Supplier, the Buyer Merchandiser releases Purchase Orders for a trial period or quantity. Trial supplies give a chance for both parties to experience dealing with one another and understanding each other's requirements. Successful completion of trial orders results in Buyer issuing the Buying Agreement [covering specific period of time] and Supplier singing the same in acceptance. As per the terms and conditions laid down under the agreement the Merchandiser will then arrange to release specific Purchase Orders or release Monthly Delivery Schedule as per the requirement.

Though the above process looks simple, it is time consuming and demands a lot of effort from the Merchandiser to bring both parties together. An experienced and mature Merchandiser who is good in relationship management as well as negotiations skills is able to approach the Supplier on a Win-win approach and build a relationship to start with. Merchandiser's job doesn't end at this stage. Further on he continues to manage the Supplier relationship and engage with Supplier from time to time as per his business needs. Merchandisers have a very critical and important role to play in the Company's relationship and experience with Suppliers and their performance.

Did u know? On acceptance of the commercial terms between the Buyer and Supplier, the Buyer Merchandiser releases Purchase Orders for a trial period or quantity.

Self Assessment

State whether the following statements are true or false:

1. Each retailer is using his own buying systems which often are hard to understand for new suppliers.
2. Low-involvement purchases include those involving high expenditure or personal risk.
3. In Low-involvement decisions, the marketer needs to provide a good deal of information about the positive consequences of buying.
4. Multi National Retail Companies normally follow strict rules regarding ethical practices and human resource management including safety and health and expect the Suppliers to follow the same.
5. Different International Retailers follow different internal processes for validating and assessing the capability of the Supplier.
6. The first task starts with gathering market information and identifying the Suppliers who may be available locally or overseas.
7. Research suggests that customers go through a four-stage decision-making process in any purchase.

Note On successful submission of trial samples and acceptance by the Buyer and the Buyer being convinced of the Intent, capability and quality of the Supplier engages the Supplier into commercial negotiations.

Caselet

The Large Retail…

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

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

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

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

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

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

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

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

Source: thehindubusinessline.com

4.3 Types of Buying Decisions

Buying Decision differs from person to person. Deepening upon the need of the person, the decision gets change; even if the product is small. There are different factors which influences the nature of buying. Hence buying decision has been classified into four different categories such as Complex buying behavior, Dissonance Reducing buying behavior, Habitual buying behavior and Variety seeking buying behavior. These are classified depending upon the degree of involvement and degree of difference among brands.

1. ***Complex Buying behavior:*** This situation involves the high level of involvement from consumers and the same with the difference among brands. These cases arise when the

product is of high price, risky, high for servicing, and so on. For example buying a laptop/ Car. Here the product is expensive and there is a significant difference among the brands.

2. ***Dissonance reducing behavior:*** This involves high involvement of the buyer but a less significance difference among the brands. For example buying an Air Conditioner. Here the product is highly priced but almost all every brand gives the same features. Sometimes this may involve the post purchase dissonance behavior. Here the consumer looks at the disadvantages of the product after purchase.
3. ***Habitual Buying Behavior:*** Here there will not be any kind of involvement from the consumer. Here the purchase happens depending upon the Brand familiarity. Here the consumer involvement is low and less differences among brands. This happens based on the habits of buying. For example buying of a liquid soap. Most of the people prefer Dettol because of the brand. But there are other products like Lifebuoy with less significant difference.
4. ***Variety Seeking Buying Behavior:*** Here the consumer involvement is low but there will be significant difference among brands. For example biscuits, when we buy a biscuit we do not know the taste hence after consumption only we can tell that whether to go for the brand or not for the next time. Here the companies try to change the nature to Habitual Buying behavior by different strategies. Sometimes this depends upon the retailers too.

Hence these are the four types of buying behavior where the consumer behaves and company tries to modify it depending upon the need.

Consumers make purchase decisions when they buy small items, such as a cup of coffee, and when they buy larger items, such as a house. After recognizing a need or a want, consumers begin searching for products or services that fit their needs. They evaluate their options, taking note of everything from pricing to a brand's reputation, before making a purchase. Four types of consumer buying behavior outline product purchase decisions.

Task Discuss about Routine Purchases.

Impulse Purchases

When a consumer stands at the checkout and notices lip moisturizer, magazines and gum, and adds one of the items to his cart of groceries, it's often referred to as an impulse purchase. The consumer makes a purchase with little to no thought or planning involved. In most instances this happens with low-priced items.

Routine Purchases

There are items consumers are used to purchasing every day, once a week or monthly. These can range from a morning cup of coffee from a nearby convenience store, to milk, eggs and cheese from the supermarket. Customers spend very little time deciding whether or not to purchase these items and don't typically need to read reviews or consult with friends for their opinions before they make routine purchases.

Limited Decision Making

When customers engage in purchases that require limited decision making, they may seek advice or a suggestion from a friend. For example, if a young professional is preparing for an interview and wants to get her hair colored the week before, she might solicit advice from friends to find out which salon does good hair coloring work. As she shops for a suit for the interview, she might also ask for suggestions on which store to go to and which brand of suit is the best. The consumer may research a few options, but the search is not as thorough, or as time consuming, as with a higher priced item.

Extensive Decision Making

Purchases for high priced electronics, such as a television, computer or camera, or major purchases such as a home or car require consumers to use extensive decision making. Consumers spend substantial amounts of time researching a high number of potential options before they buy. They speak with trusted friends, family, colleagues and sales professionals, and read reviews and ratings online and in consumer magazines. The decision making process lasts longer, as the consumer is investing a substantial amount of money.

Did u know? A consumer making a purchase is affected by personal, phychological and social factors.

4.4 Social Factors Influencing the Buying Process

Consumer Behavior is an effort to study and understand the buying tendencies of consumers for their end use.

Social factors play an essential role in influencing the buying decisions of consumers.

Human beings are social animals. We need people around to talk to and discuss various issues to reach to better solutions and ideas. We all live in a society and it is really important for individuals to adhere to the laws and regulations of society.

Social Factors influencing consumer buying decision can be classified as under:

1. Reference Groups
2. Role in the Society
3. Status in the society

Reference Groups

Every individual has some people around who influence him/her in any way. Reference groups comprise of people that individuals compare themselves with. Every individual knows some people in the society who become their idols in due course of time.

Co-workers, family members, relatives, neighbours, friends, seniors at workplace often form reference groups.

Reference groups are generally of two types:

Primary Group

It consists of individuals one interacts with on a regular basis.

Primary groups include:

1. Friends
2. Family Members
3. Relatives
4. Co-workers

All the above influence the buying decisions of consumers due to following reasons:

They have used the product or brand earlier.

They know what the product is all about. They have complete knowledge about the features and specifications of the product.

Tim wanted to purchase a laptop for himself. He went to the nearby store and purchased a Dell Laptop. The reason why he purchased a Dell Laptop was because all his friends were using the same model and were quite satisfied with the product. We tend to pick up products our friends recommend.

A married individual would show strong inclination towards buying products which would benefit not only him but also his family members as compared to a bachelor. Family plays an important role in influencing the buying decisions of individuals.

A consumer who has a wife and child at home would buy for them rather than spending on himself. An individual entering into marriage would be more interested in buying a house, car, household items, furniture and so on. When an individual gets married and starts a family, most of his buying decisions are taken by the entire family.

Every individual goes through the following stages and shows a different buying need in each stage:

1. ***Bachelorhood:*** Purchases Alcohol, Beer, Bike, Mobile Handsets (Spends Lavishly)
2. ***Newly Married:*** Tend to purchase a new house, car, household furnishings. (Spends sensibly)
3. ***Family with Children:*** Purchases products to secure his as well as his family's future.
4. ***Empty nest (Children getting married)/Retirement/Old Age:*** Medicines, Health Products, and Necessary Items.

A Ford Car in the neighbourhood would prompt three more families to buy the same model.

Secondary Groups

Secondary groups share indirect relationship with the consumer. These groups are more formal and individuals do not interact with them on a regular basis example - Religious Associations, Political Parties, Clubs etc.

Role in the Society

Each individual plays a dual role in the society depending on the group he belongs to. An individual working as Chief Executive Officer with a reputed firm is also someone's husband and father at home. The buying tendency of individuals depends on the role he plays in the society.

Social Status

An individual from an upper middle class would spend on luxurious items whereas an individual from middle to lower income group would buy items required for his/her survival.

Notes

Self Assessment

Fill in the Blanks:

8. When .... engage in purchases that require limited decision making.
9. .... for high priced electronics, such as a television, computer or camera, or major purchases such as a home or car require consumers to use extensive decision making.
10. .... groups share indirect relationship with the consumer.
11. The .... process lasts longer, as the consumer is investing a substantial amount of money.
12. .... decision has been classified into four different categories such as Complex buying behavior, Dissonance Reducing buying behavior, Habitual buying behavior and Variety seeking buying behavior.
13. Buying Behavior are classified depending upon the degree of involvement and .... of difference among brands.
14. .... reducing behavior involves high involvement of the buyer but a less significance difference among the brands.
15. Co-workers, family members, relatives, neighbours, friends, seniors at workplace often form ....

Case Study

Cadbury-Kraft Focuses on Consumer Behaviour Inside Shops

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

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

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

Branded visi coolers, a range of dispensers developed by local and international design experts, are part of the company's efforts to make the overall shopping experience exciting for consumers. The firm has refurbished packaging of its brands such as chewing gum brand Bubbaloo and pushed promotions to drive sales.

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

Contd....

Notes

Studying consumers

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

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

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

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

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

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

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

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

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

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

Question:

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

Source: Business Standard

4.5 Summary

- Each retailer is using his own buying systems which often is hard to understand for new suppliers.
- Research suggests that customers go through a five-stage decision-making process in any purchase.
- The buying process starts with need recognition.
- The first task starts with gathering market information and identifying the suppliers who may be available locally or overseas.
- On successful submission of trial samples and acceptance by the buyer and the buyer being convinced of the intent, capability and quality of the supplier engages the supplier into commercial negotiations.
- Buying decision differs from person to person.
- Purchases for high priced electronics, such as a television, computer or camera, or major purchases such as a home or car require consumers to use extensive decision making.
- Secondary groups share indirect relationship with the consumer.

4.6 Keywords

Complex Buying behavior: This situation involves the high level of involvement from consumers and the same with the difference among brands.

Dissonance reducing behavior: This involves high involvement of the buyer but a less significance difference among the brands.

Extensive Decision Making: Purchases for high priced electronics, such as a television, computer or camera, or major purchases such as a home or car require consumers to use extensive decision making.

Habitual Buying Behavior: Here there will not be any kind of involvement from the consumer.

Impulse Purchases: When a consumer stands at the checkout and notices lip moisturizer, magazines and gum, and adds one of the items to his cart of groceries, it's often referred to as an impulse purchase.

Limited Decision Making: When customers engage in purchases that require limited decision making, they may seek advice or a suggestion from a friend.

Routine Purchases: There are items consumers are used to purchasing every day, once a week or monthly. These can range from a morning cup of coffee from a nearby convenience store, to milk, eggs and cheese from the supermarket.

4.7 Review Questions

1. Describe the act of retailing. Why do you think retailing is important?
2. "Retailers provide a collection of service benefits to their customers." Substantiate.
3. Discuss the functions of retailing with the help of suitable examples.
4. Discuss the social and economic significance of retailing.
5. Explain the structure of retailing and distribution.

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

Answers: Self Assessment

1. True
2. False
3. False
4. True
5. True
6. True
7. False
8. Customers
9. Purchases
10. Secondary
11. Decision Making
12. Buying
13. Degree
14. Dissonance
15. Reference Groups

4.8 Further Readings

Books

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

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

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

Online links

http://www.retail-index.com/HomeSearch/RetailBuyingProcessGuidelines.aspx

tutor2u.net/business/marketing/buying_decision_process.asp

http://www.managementstudyguide.com/social-factors-affecting-consumer-behaviour.htm

http://www.blurtit.com/q1788130.html

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Unit 5: Retailing Strategy

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Objectives

After studying this unit, you will be able to:

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

Introduction

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

The retailing strategy outlines the mission and vision of a retail organization. It is a systematic plan that provides the retailers the overall framework for dealing with competitors as well as technological and global movements. In the past traditional retailers mainly reacted to changes in the business environment, but with increasing business complexities, this is no longer valid. The reason of this, competition in all the disciplines of retailing is increasing and changes in the consumer's tastes, need, wants, technological environment and other external environmental variables are taking place very fast. Long term strategies and continuous examination of strengths, weaknesses, opportunities and threats (SWOT analysis) is required to ensure that the growth opportunities are not missed and action is taken at the right time to combat potential threats in the prevailing business environment.

5.1 Concept of Business World

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

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

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

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

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

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

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

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

Self Assessment

State whether the following statements are true or false:

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

5.2 Retail Market Strategy

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

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

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

5.2.1 Levels of Strategy for Retail Organisations

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

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

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

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

Functional strategic level strategy involves decision making at the operational level with respect to specific functional areas-production, marketing, personnel, finance etc. Decisions at the functional level are often described as 'tactical' decisions. These decisions are necessarily guided by overall strategic considerations and must be consistent with the framework of business strategy.

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

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

5.2.2 Strategic Retail Planning Process

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

Strategic retail planning process divided into the following four steps:

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

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

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

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

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

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

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

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

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

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

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

External Analysis

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

(a) Economic environment of retailing

(b) Political/Legal environment of retailing

(c) Socio-cultural environment of retailing

(d) Technological environment of retailing

(e) International environment of retailing

Economic Environment of Retailing

(a) Inflation

(b) Employment

(c) Disposal income

(d) Business cycle

(e) Energy availability and cost

(f) Others

Political/Legal Environment of Retailing

(a) Monopolies legislation

(b) Environmental protection laws

(c) Taxation policy

(d) Employment laws

(e) Government policy

(f) Legislation

(g) Others

Socio-Cultural Environment of Retailing

(a) Demographics

(b) Distribution of income

(c) Social mobility

(d) Lifestyle changes

(e) Consumerism

(f) Levels of education

(g) Others

Technological Environment of Retailing

(a) New discoveries and innovations

(b) Speed of technology transfer

(c) Rates of obsolescence

(d) Internet

(e) Information technology

(f) Others

International Environment of Retailing

(a) Growth

(b) Opportunities

(c) Others

Internal Analysis

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

The questions may arise under these resources:

Human Resource

(a) Is the present strength of employees at various levels sufficient for future action?

(b) Are the employees trained and capable to perform the tasks assigned to them?

(c) Are the employees loyal to the store?

(d) Are the employees punctual and regular?

(e) Are the employees skilled matched to their assigned tasks?

Financial Resource

(a) What is the total cash flow from the store's present activities?

(b) What is the ability of the retail store to collect money at the time of requirement/ emergency?

(c) How effective and stable are the financial policies?

(d) What is the ratio between fixed and current assets?

(e) What are the contingency plans in case of negative cash flow?

Physical Resources

(a) What is the contribution of fixed assets?

(b) What is the position of abandoned/unused assets?

(c) How effective and updated are the store's information systems?

Intangible Resources

(a) What are the present capabilities of the company's management?

(b) How effective is the R&D cell?

(c) How good is the competitor's intelligence system?

(d) How effective are the store's loyalty programmes?

(e) What is the capability of a retail store manager?

(f) Are customers loyal towards the company's products?

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

Mission

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

Functions of Retail Strategy

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

   (i) The products and services that will be offered.

   (ii) The customers who will be served.

   (iii) The geographic areas that the organization chooses to operate in the manner in which the firm intends to compete.

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

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

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

   (i) Market penetration strategy may focus either on: Increasing the number of customers; Increasing the quantity purchased by customers (basket size); Increasing the frequency of purchase; Increasing the number of customers can be achieved by adding new stores and by modifying the product mix. Another approach is to encourage salespeople to cross sell. Market penetration strategy is the least risky one, since it controls many of the firm's resources and capabilities. However, market penetration has limits. Once the market approaches saturation, a new strategy needs to be pursued if the firm is to continue growth.

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

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

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

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

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

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

Notes

Considerations for successful market segmentation:

(i) Measurable: The segment should be measurable and identifiable?

(ii) Accessible: Focusing market marketing efforts on a particular market segment should have a positive impact towards bringing out the desired response.

(iii) Economically viable: The expense and efforts of focusing the marketing efforts in potential segments should be justified.

(iv) Stable: The consumer characteristics are indicators of market potential. Hence stable indicators to be considered.

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

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

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

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

Retail positioning is made possible under these circumstances:

(a) By differentiation of the store's merchandise from that its competitors.

(b) By offering a high level of service after sales at nominal cost.

(c) By adopting low pricing policies.

Retail mix

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

Note The main elements of a retail store mix are:

(a) The store's location

(b) Merchandise assortment

(c) Pricing policy

(d) Customer service mechanism

(e) Visual merchandising

(f) Personal selling efforts

(g) Advertising efforts

(h) The store's internal and external environments.

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

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

   Strategy control deals in three basic concepts

   (a) Inspection

   (b) Detection

   (c) Correction

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

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

5.2.3 Alternate Retail Strategies

Given that the objectives are well articulated, resources are well managed but when it comes to implementation due to sudden change in internal or external environment, the old concepts or formulated policies become invalid. Now what should a retail manager do, this is not an uncommon phenomenon but can happen to any retailer. It has rightly been said that 'think positive but the prepared for the worst'. Considering retailers, who are sensitive to environmental changes, they always prepare a set of alternative strategies, in case change in technology or change in customer's preferences make the present schemes ineffective.

5.3 Target Market and Retail Formats

The retailing concept emphasizes that retailers must consider both their customers and their competitors when developing a retail strategy. Successful retailers satisfy the needs of customers in their target market segment better than the competition does. The selection of a target market focuses the retailer on a group of consumers whose needs it will attempt to satisfy. The selection of a retail format outlines the retail mix to be used to satisfy needs of customers in the target market.

The retail strategy determines the markets in which a retailer will compete. Traditional markets, like a farmers' market, are places where buyers and sellers meet and make transactions – say, a consumer buys six ears of corn from a farmer. But in modern markets, potential buyers and sellers aren't located in one place. Transactions can occur without face-to-face interactions. For example, many customers contact retailers and place orders over the Internet using a computer.

Vie define a retail market, not as a specific place where buyers and sellers meet, but as a group of consumers with similar needs (a market segment) and a group of retailers using a similar retail format to satisfy those consumer needs. A number of retail format offers a different retail mix to its customers. Customer segments are listed in the exhibit's top row. As these segments can be defined in terms of the customer's demographics, lifestyle, buying situation, or benefits sought. In this illustration, we divide the market into three fashion-related segments: conservatives who place little importance on fashion, traditional who 'want classic styles, and fashion-forwards who want the most fashionable merchandise. For example, Wal-Mart and Kmart stores in the same geographic area compete with each other using a discount store format targeting conservative customers, while Saks and Neiman Narcus compete against each other with a department store format targeting the fashion-forward segment. Retail formats could be expanded to include outlet stores and electronic retailing. Rather than being segmented by fashion orientation.

One of the key determinants of a retailer's success is the format that they use to present to their target customers. A retailer can chose a format based on the kind of store design they want to render, the locality they would like to establish, the various products and services they wish to provide and the approach taken to pricing. The most important aspect is the format should be ideal to their target demographics.

In the past, the Indian retail sector has been dominated by small independent players such as traditional and small grocery stores. It is in the recent times that organized, multi-outlet retail concept has gained acceptance and has since then gained momentum. As per the study conducted by the Indian Council for Research on International Economic Relations (ICRIER), on the subject 'Impact of Organized Retail on Unorganized Sector', the retail business is estimated to grow at 13% per annum from US $ 322 billion in 2006-07 to US $ 590 billion in 2011-12.

A report by FICCI on the "Indian retail: on the fast track" shows that various organized retailers are currently experimenting with different formats of retail trade. It is difficult to predict which format will have a winning edge over all others in view of the fact that the Indian market is yet to mature.

The different sorts of retail formats that retailers could adopt are mom-and-pop or kirana stores, specialty stores, department stores, discount stores, convenience stores, hypermarkets, supermarkets, malls, category killers, e-tailers and vending machines.

Mom-and-Pop or Kirana Stores: is a retail outlet that is owned and operated by individuals. The range of products are very selective and few in numbers. These stores are seen in local community often are family-run businesses. The square feet area of the store depends on the store holder.

Specialty Stores: A typical specialty store gives attention to a particular category and provides high level of service to the customers. A pet store that specializes in selling dog food would be regarded as a specialty store. However, branded stores also come under this format. For example if a customer visits a Reebok or Gap store then they find just Reebok and Gap products in the respective stores.

Department Stores often bear a resemblance to a collection of specialty stores. A retailer of such store carries variety of categories and has broad assortment at average price. They offer considerable customer service. For example: Food World in Bangalore.

Discount Stores offers extensive assortment of merchandise at affordable and cut-rate prices. Normally retailers sell less fashion-oriented brands. However the service is inadequate.

Convenience Stores is essentially found in residential areas. They provide limited amount of merchandise at more than average prices with a speedy checkout. This store is ideal for emergency and immediate purchases.

Hypermarkets provides variety and huge volumes of exclusive merchandise at low margins. The operating cost is comparatively less than other retail formats. A classic example is the Metro™ in Bangalore.

Supermarkets is a self service store consisting mainly of grocery and limited products on non-food items. They may adopt a Hi-Lo or an EDLP strategy for pricing. The supermarkets can be anywhere between 20,000-40,000 square feet. Example: SPAR™ supermarket.

Malls has a range of retail shops at a single outlet. They endow with products, food and entertainment under a roof. Example: Sigma mall and Garuda mall in Bangalore.

Category Killers or Category Specialist: By supplying wide assortment in a single category for lower prices a retailer can "kill" that category for other retailers. For few categories, such as electronics, the products are displayed at the center of the store and sales person will be available to address customer queries and give suggestions when required. Other retail format stores are forced to reduce the prices if a category specialist retail store is present in the vicinity. For example: Pai Electronics™ store in Bangalore.

E-tailers: The customer can shop and order through internet and the merchandise are dropped at the customer's doorstep. Here the retailers use drop shipping technique. They accept the payment for the product but the customer receives the product directly from the manufacturer or a wholesaler. This format is ideal for customers who do not want to travel to retail stores and are interested in home shopping. However it is important for the customer to be wary about defective products and non-secure credit card transaction. Example: Amazon and Ebay.

Vending Machines: This is an automated piece of equipment wherein customers can drop in the money in machine and acquire the products. This kind of system is currently not widely used in India. For example: Soft drinks vending at Bangalore Airport.

Retailers can opt for a format as each provides different retail mix to its customers based on their customer demographics, lifestyle and purchase behavior. A good format will lend a hand to display products well and entice the target customers to spawn sales.

Self Assessment

Fill in the blanks:

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

5.4 International Retailing

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

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

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

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

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

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

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

Steps in International Retailing

1. Financial Investment/Cross Border Shopping
2. Transfer of Know-how
3. Internationalisation of Sourcing
4. Internationalisation of Retail Operations

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

Issues to be considered while going international in retail business:

1. Logistics and supply chain management
2. Service quality across international boundaries
3. Electronic Commerce and E-Retailing/E-tailing
4. Design
5. Ethical aspects of retail business
6. Luxury brands
7. Young potential consumers
8. Global trends

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

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

Caselet

Starbucks' Expansion into the Indian Territory

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

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

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

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

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

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

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

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

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

Top of Form

Bottom of Form

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

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

Source: www.huffingtonpost.com

Self Assessment

State whether the following statements are true or false:

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

5.5 The Retail Value Chain

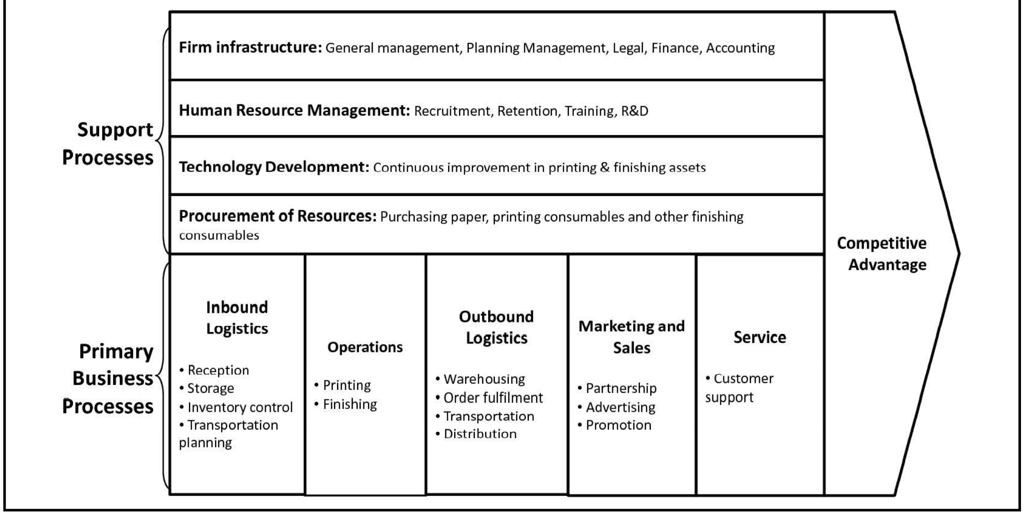
To get a bird's eye view of an organisation's operations is the purpose of the value chain model of corporate activities, developed by Michael Porter. Competitive advantage, says Porter, arises out of the way in which firms organize and perform activities. One should keep in mind that in Porter's analysis,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

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

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

1. Customer's purchase value, which they measure by comparing a firm's products and services with similar offerings by competitors.
2. The retail business creates value by carrying its activities either more efficiently than other retail businesses, or combined in such a way as to provide a unique product or service. Porter analysed the various activities of an organization into a value chain. Figure 5.1 depicts Porter's Value Chain model.

Figure 5.1: Porter's Value Chain


Support Processes
Firm infrastructure: General management, Planning Management, Legal, Finance, Accounting
Human Resource Management: Recruitment, Retention, Training, R&D
Technology Development: Continuous improvement in printing & finishing assets
Procurement of Resources: Purchasing paper, printing consumables and other finishing consumables
Primary Business Processes
Inbound Logistics
• Reception
• Storage
• Inventory control
• Transportation planning
Operations
• Printing
• Finishing
Outbound Logistics
• Warehousing
• Order fulfilment
• Transportation
• Distribution
Marketing and Sales
• Partnership
• Advertising
• Promotion
Service
• Customer support
Competitive Advantage

Source: www.12manage.com

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

1. Primary Activities are those directly related with production, sales, marketing, delivery and services. The diagram shows five primary activities.
2. Inbound logistics are those activities involved with receiving, handling and storing inputs to the production system.

3. Operations are those activities which convert resource inputs into a final product.
4. Outbound logistics are those activities relating to storing the product and its distribution to customers.
5. Marketing and sales are those activities that relate to informing customers about the product, persuading them to buy it, and enabling them to do so.
6. ***After sales services:*** For many companies, there are activities such as installing, repairing products, providing spares etc.

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

1. Procurement refers to those activities which acquire the resource inputs to the primary activities.
2. ***Technology development:*** These activities are related to both product design and to improving process and/or resource utilization.
3. Human resource management is the activities of recruiting training and rewarding people.
4. ***Firm infrastructure:*** The systems of planning, finance etc. are activities which Porter believes are crucially important to an organisation's strategic capability in all primary activities.
5. Furthermore, in addition to the categories, described above, Porter identifies three other ways of categorizing activities.
6. Direct activities are concerned with the adding value to inputs.
7. Indirect activities enable direct activities to be performed e.g. maintenance.
8. ***Quality assurance:*** This type of activity monitors the quality of other activities and includes inspection review and audit.

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

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

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

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

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

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

Self Assessment

Fill in the blanks:

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

Case Study

Wal-Mart's Marketing Strategy

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

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

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

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

This competitive nature has allowed controversy to flourish under their name. But their marketing has focused on quantity, and delivering variety in one location. Their extending hands to Subway and McDonalds for placement of restaurants in Walmart's, further validates this claim. As well, a typical customer can get glasses prescription, get their haircut, and oil changed under their building. You can purchase jewellery on one side, and

Contd....

draperies on the other. You can buy groceries and grab a new lawnmower (while waiting for an oil change). Their recent cooperation with SunTrust bank has allowed their presence in Southeast Walmart's. Their marketing has always relied on variety– how many single things can you do in one location.

Wal-Mart has garnered its fair share of controversy. Yet, the convenience is truly unrivalled. With such a wide breadth of options for a consumer, it seems almost silly to shop at another location where these options are severely limited. Wal-Mart's online marketing is simply an extension of their physical stories, allowing individuals to purchase directly through the site.

Question:

Comment on the marketing strategy of the world biggest retailer.

Source: www.strategicminds.eu

5.6 Summary

- Retailing is the latest buzzword among the business. It is evolving into a global, high-tech business and occupies a pre-eminent position in the economics of all modern societies.
- The Indian retailing Industry is becoming intensely competitive, as more and more players are vying for the same set of customers.
- Strategy planning or formulation of strategy consists of a set of decisions that leads to the development of an effective strategy. We check all the activities related to the internal and external factor those affect directly or indirectly to the organization.
- Companies need to categorise segments according to their present and future attractiveness and their company's strengths and capabilities relative to different segments' needs and competitive situation.
- Porter suggests that there are five basic competitive forces, which influence the state of competition in an industry.
- Strategic retail planning process divided into the following steps: Deciding the store's mission and objectives, Situation analysis, Formulation of retail strategy, and Implementation and control of strategy.
- International retailing is an essential ingredient for the global economy. International retailing satisfies the increasingly complex and demanding needs of global consumers.
- Retailing is predominantly a domestic market activity. The total business of the vast majority of retailers is done within one particular country and in many cases, within one specific region or district.
- A company's value chain is not bounded by a company's border. It is connected to what Porter describes as a value system.

5.7 Keywords

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

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

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

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

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

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

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

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

5.8 Review Questions

1. "Retailing today is at an interesting cross road." Elaborate.
2. "The Indian retail market is quite large but highly fragmented." Do you agree? Justify your answer.
3. Explain the levels at which a retail organisation's strategy is developed.
4. Discuss the retail strategy planning process in detail.
5. Describe the growth strategy used by the retailers to expand.
6. "International retailing is an essential ingredient for the global economy." Substantiate.
7. Retailing is predominantly a domestic market activity. Do you agree with the statement? Why or why not?
8. State the purpose and concept of Porter's value chain.
9. Explain Porter's value chain in detail.
10. "A company's value chain is not bounded by a company's border." What do you mean by the statement?
11. Discuss about the target market and retail formats in retailing.

Answers: Self Assessment

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

5.9 Further Readings

Books

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

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

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

Online links

http://www.blurtit.com/q1788130.html

http://www.exforsys.com/career-center/career-tracks/duties-and-responsibilities-related-to-being-a-retail-store-manager.html

http://www.oup.com/uk/orc/bin/9780199216468/haberberg_ch02.pdf

http://www.managementstudyguide.com/strategy-formulation-process.htm

Unit 6: Financial Strategy and Retail Locations

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Objectives

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Objectives

After studying this unit, you will be able to:

- Discuss the financial objectives and goals of retail marketing
- Explain the Strategic Profit Model
- Discuss the analysis of financial strength
- Describe the location and retail strategy
- Explain the trade area characteristics
- Estimate potential sales for a store site

Introduction

The overall objective of retail marketing is creating and developing services and products that meet the specific needs of customers and offering these products at competitive, reasonable prices that will still yield profits. Businesses must realize that, in retail, the customer lies at the center of any organization's marketing efforts, determining the overall success of the product or service.

6.1 Financial Objectives and Goals of Retail Marketing

The financial objectives and goals of retail marketing are discussed below:

Understand Your Customer

It is imperative that you understand your target customer. If you primarily sell children's clothing, you should be targeting females in their 20s and 30s (moms). Your business should take the time to know these women: what reaches them, what makes them tick, what they truly need out of your product. Your understanding of your target customer will allow you to communicate better with them, identify their market potential, customize product offers to them according to various market segments and consider their needs during product changes and updates.

Make Connections

A primary goal of retail marketing is understanding the connections between the customer's lifestyle and spending characteristics and why they choose one product over another. Using this knowledge, businesses can develop their products with a competitive advantage. This requires research and time as you delve into questions of brand loyalty, quality of product and pricing.

Improve Direct Marketing

Businesses must test to ensure that they are sending the appropriate message to the appropriate households. They also must send this message at the appropriate time using the appropriate media. Your communications must be spot on, selling the benefits of your product or service in such a way that a prospect becomes a paying customer.

Increase Customer Loyalty

To increase customer loyalty, businesses must develop relationships with customers, continually selling the value of the product in their situation. Never over or under sell; instead, operate with integrity. Matching competitors' prices, developing special rewards for loyal customers (frequent purchase card with discounts, priority service or personalized offers) and referral programs can all be effective avenues to increasing customer loyalty.

Make the Product Known

If you know your target customers, understand their needs and have developed the perfect product, you have to get the word out. Using your knowledge of your customers, you must communicate using the right channel. Using the above example of children's clothing, you should advertise your business in parenting and family magazines, on channels featuring children's programming and in or near toy and book stores.

Profit Maximization

Profit maximization is the short run or long run process by which a firm determines the price and output level that returns the greatest profit. There are several approaches to this problem. The total revenue–total cost perspective relies on the fact that profit equals revenue minus cost and focuses on maximizing this difference, and the marginal revenue–marginal cost perspective is based on the fact that total profit reaches its maximum point where marginal revenue equals marginal cost.

Return on Investment

Return on investment (ROI) is one way of considering profits in relation to capital invested. Return on assets (ROA), return on net assets (RONA), return on capital (ROC) and return on invested capital (ROIC) are similar measures with variations on how 'investment' is defined.

Marketing not only influences net profits but also can affect investment levels too. New plants and equipment, inventories, and accounts receivable are three of the main categories of investments that can be affected by marketing decisions. Thus, the retailer aims to achieve a high return on investment.

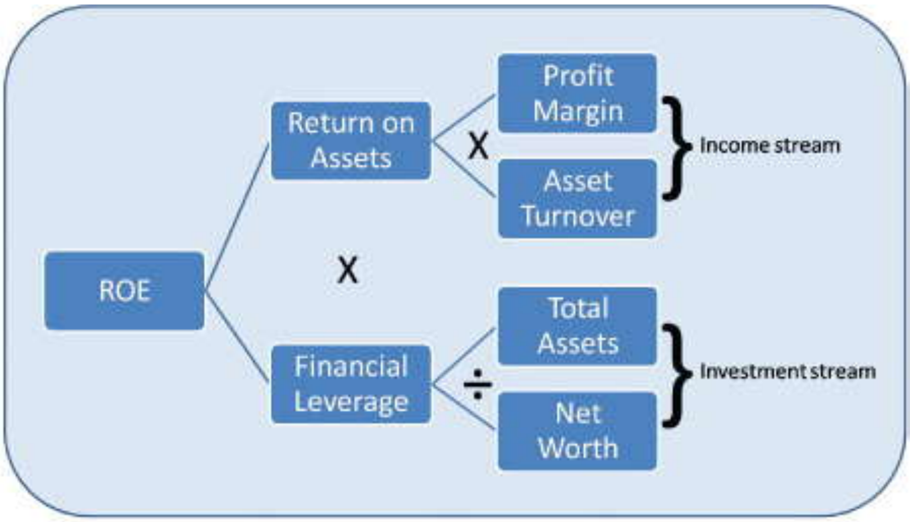
Note In retail, the customer lies at the centre of any organisation's marketing efforts, determining the overall success of the product or services.

6.2 Strategic Profit Model

The **Strategic Profit Model** is a crucial part of understanding how different retail strategies can be used to pursue similar financial goals. There are different financial tools retailers use to measure and evaluate their performances. Thus, stores operate with different margins depending on their strategies.

A standard measure of financial success is **Return on Equity (ROE).** It is a simple calculating method using the simple formula of net income divided by owner's equity. Achieving a high **Return on Assets** (net profit + total assets) is one of the important financial goals. It is divided into two different paths which are the profit and the turnover. Here, asset turnover is used to measure the productivity of a firm's investment in assets.

Figure 6.1: Income and Investment Stream of Strategic Profit Model



Above is the income and investment stream of the strategic profit model. It shows that it could be determined whether the ROE can be improved or not through the income stream or the investment stream. It is basically showing how ROE is doing compared to ROA and suggests two different ways to improve performances.

Overall, retailers aim for high turnover to successfully run their business and one way to do it is to decrease the average inventory. This could be done promotions to speed up the turns, by lowering gross margin and by electronic replenishment.

Did u know? The strategic profit model (also known as DuPont Model gives a visual view of an organisation's finances and provides the ability to understand and analyse financial performance and return of investment.

Self Assessment

Fill in the blanks:

1. .... must test to ensure that they are sending the appropriate message to the appropriate households.
2. The .... is a crucial part of understanding how different retail strategies can be used to pursue similar financial goals.
3. A standard measure of financial success is ....
4. Businesses must test to ensure that they are sending the appropriate message to the appropriate ....
5. To increase ...., businesses must develop relationships with customers, continually selling the value of the product in their situation.

6.3 Analysis of Financial Strength

Financial ratio formulas can be used to determine a companies stability, long term growth, and investment potential. Using these basic ratio formulas can give you an objective insight into financial strength.

Instructions

1. Understand a companies leverage or borrowing power ratio. Leveraging is a companies amount of debt in relation to its assets and equity. Ratio formulas measuring financial leveraging include debt to equity and asset turnover.
2. Determine a companies financial liquidity ratio. Financial liquidity is figured by using formulas dividing total assets by total liabilities.
3. Estimate a companies operating ratio or use of capital. To find the ratio of working capital divide the companies total day to day earnings by costs.
4. Measure a companies profitability ratio. Profitability is measured with a number of formula ratios but the simplest is gross profit margin in which gross profit are divided by total revenue. This should show some variation but remain mostly stable as an indicator of good financial practices.
5. Evaluate a companies financial solvency. Solvency is stability over time or the likely-hood of a company falling into bankruptcy. Ratio formulas used to measure this include debt to equity, debt to assets, fixed costs, or interest ratios.

Caution The recent years, several researchers have presented their suggestions about BI evolution in order to serve performance measurement and management.

6.4 Setting and Measuring Performance

Performance management is a challenging issue due to three core reasons: (a) goals and objectives against which we measure companies' performance are exponentially increasing, (b) external unstructured data and events have to be encompassed and, finally, (c) acting in a timely and effective manner on the resulted imperatives is required.

The recent years, several researchers have presented their suggestions about BI evolution in order to serve performance measurement and management. We present them in order to show their common characteristics and find the set of operations that best fit in the retail industry.

In, performance management is concerned in terms of process execution monitoring and analysis. Authors consider that simple reports off the process execution database and OLAP-style analysis are not adequate. Business Process Intelligence is proposed as a way to explain process behavior and to predict problems in process executions by applying "process mining" algorithms. An overview of issues and approaches on workflow mining can be found.

Task Discuss about the strategic Profit Model.

6.5 Types of Retail Locations

Commercial retail locations are available in many different forms. Stop and think about the businesses in your town. Like most communities, there are probably older shopping areas, new bustling retail locations and some tucked away shops.

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

Mall Space

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

Shopping Center

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

Downtown Area

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

Free Standing Locations

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

Office Building

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

Home-based

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

Did u know? Population level, growth congestion and competition alone are not sufficient factors for retail locations. They must have the right demographic and lifestyle profile.

6.6 Location and Retail Trends

Nationwide, the retail sector enjoyed robust growth during the first half of the decade, due in great part to the continued expansion of big boxes. The excitement, however, is dying down, as several category-killer retailers experience slowing sales. The once-zealous players are becoming more cautious, and once again the rules of the game are changing for developers and commercial brokers.

New Development Drivers

Traditionally, retail centers have been defined as either regional, community, or neighborhood, with standard tenants for each of these categories. Recently, though, the lines have blurred, as discount department stores anchor regional malls and traditional mall tenants move in-line at strip centers or into freestanding locations.

The three familiar categories have now polarized into either regional or neighborhood locations. Lackluster performance has caused the retreat or merger of a number of retail chains, both large and small. The theatre and entertainment group, once shunned by many developers and anchor retailers, is fast becoming the darling of the industry. And in the wake of continuing retail bankruptcies and mergers, capital markets are taking a closer look at new development. In fact, many financial institutions have reallocated funds for property types, dropping retail from the most-favored status.

With fewer dollars focused on this overbuilt market-and cautious tenants becoming more selective in choosing new locations-developers and retailers must be more creative. As a result, new deals will rely less on the credit of the tenant and more on the developer's use and positioning of a site as it relates to the market.

Location, Location, Location?

What does all of this mean if you have a site looking for a use or a use looking for a site? Throw out those preconceived ideas about location, as the old adage is in a state of evolution. Market, market, market is a more-appropriate concept for the future as retailers and developers alike ask not "Is this a good location," but rather "Is this the best location in the market, given the competition?"

Historically, the criteria for many retailers has included a location on Main and Main, with a minimum population within a specific radius, generally concentric rings of 1, 3, 5, or 10 miles. But providing demographics based on concentric rings and identifying the competition are no longer enough to sell a buyer on a location. Road systems, buyer preferences, and new venues of competition must now be considered, making use of the new technologically advanced systems that overlay mapping, demographics, and other data.

Consistency in consumer behavior also plays a part in the decision-making process, as cluster analysis, which identifies similar behavior patterns within similar demographic tracts, becomes prevalent. Psychographics-adding psychology, behavior, and lifestyles to demographic data-is also being utilized. For example, the shopping patterns in the Midwest are not the same as those in the New York City metropolitan area when parking, road access, and visibility are considered.

Providing information on the existing, proposed, and potential competition surrounding each site is critical when reviewing any location. Geodemographic systems have quickly become the choice among savvy market researchers, as the use of one or more of these systems has proved successful in selecting new store locations. Doing research and providing this information are now key to satisfying retailers and capital markets.

Retailers, developers, and brokers must push the envelope and look beyond the obvious to find creative options. For example, Tandy's Incredible Universe, the cutting edge of electronics retailing, includes in-store McDonald's in its 185,000 square foot stores. Brand recognition has made Starbucks a household word, with locations in malls, airports, stadiums, and most recently, flying the friendly skies with United Airlines.

Current Trends

With many retailers opting for locations in more densely populated areas, sites currently occupied for other uses are finding new life as adaptive reuse becomes the standard in urban economic development. Many of the nation's retailers are discovering the substantial dollar volumes that are largely untapped in the major urban markets. Obsolescent industrial buildings in A locations are making way for new supermarkets, Wal-Marts, and Home Depots across the country. In fact, Wal-Mart is considering obsolescence in its new prototype by designing stores that can be converted into multifamily housing in the future. Communities with enterprise zones and other economic incentives are getting a second chance as retailers rediscover downtown in more-affluent markets. A shining example is the Circle Centre redevelopment in Indiana polis.

B locations, or those neighborhood centers once anchored by supermarkets, are getting a breath of new life from Rite Aid, Walgreens, and CVS as consumers yearn for service and convenience.

In addition, the surviving supermarkets and large discount department stores are anchoring regional malls. K mart now focuses on its superstore concept in metropolitan locations, with Wal-Mart continuing to identify gaps in suburban markets. There are fewer active big-box players; therefore, opportunities for regional mall locations, as they become repositioned, will become more prevalent.

The Challenge of Cyber Retailing

Technology is making a dramatic impact on the retail industry as a whole. A recent Gallup Poll study concluded that 40 percent of all shoppers are now using non-store venues to make some of their purchases. Another recent study concluded that electronic shopping could shift 10 percent to 20 percent of sales away from retail stores.

In addition to catalog and TV shopping, cyber retailing has entered the scene, and continuing advances in infotechnology will make home shopping more desirable. Many retailers now have World Wide Web pages on the Internet to market their goods, making cyberspace the great equalizer as retailers of all sizes compete on an even electronic playing field.

At a recent panel discussion regarding retail strategies, a panelist and counsel for a major supermarket company in the Northeast stated that his company is "rethinking" the concept of the 25-year lease, as the speed of technology is changing the way retailing will be done in the future. The Catalina Marketing Corporation is currently beta testing a new Web site that will allow consumers to comparison shop at local supermarkets. The site also provides online advertising from manufacturers and coupons that consumers can print from their home computers.

Ultimately these technological changes will result in a reduced need for physical space as retailers expand electronically. Tenants that may disappear from shopping centers include camera and photo-processing stores (as digital cameras, without film, become more popular), travel offices, music stores, and bank branches (that are meeting and serving customers online, greatly reducing costs).

All of these factors will diminish the value of location. Eventually consumers will come to value the convenience of shopping online over the need to personally pick out products, just as they have with catalog shopping. For example, if a retailer were to offer its products online, the customer who wants to touch and try on the products at a regional location could do so; others could stay at home, make a selection, place an order, and await delivery. The retailer would eliminate the need for a location in every market.

As an example, consider L.L. Bean, the leader in catalog retailing; most consumers know where they can visit its stores. Becoming a destination retailer, less emphasis is placed on location. With fewer retailers needing fewer locations, there will be an abundance of good locations. We see this trend already as the vacancies for traditional strip centers increase and their lease rates decrease.

The Next Trend

Will all of this technology eliminate the need for us to leave our homes? Human beings are by nature social creatures. Therefore, shopping will evolve into places for entertainment and socialization. In many areas of the country, particularly the waterfronts, we have already seen this new breed of retailers clustering around entertainment venues and tourist destinations. Now that value pricing has left its mark, customer service and entertainment will again become the hallmarks of retailing.

For example, theater chains and other entertainment venues are taking center stage as the anchors of new retail centers. The newest entertainment concept is Sega GameWorks, a 5,000-to-30,000-square-foot venture between Steven Spielberg's DreamWorks, MCA/Universal, and Sega. Approximately 20 freestanding and/or mall locations across the country are planned, with the first to open in late 1996 in downtown Seattle. National and regional restaurant groups are complementing the mix of this new environment.

Under All Is the Land

In many areas, few choice undeveloped sites-level and visible from the highway or easily accessible-are still available. Those remaining may have any number of challenges associated with them. Determining and providing the following information to the developer or user will undoubtedly expedite the process, and surprisingly, is often overlooked.

1. ***Physical constraints:*** Does the site have difficult topography? Are the soil conditions such that blasting will be required? A review by a geologist will quickly assist in determining whether the soil conditions will result in any unusual site costs. Are there any easements or rights of way that will affect access or use of the site? Do a title search earlier rather than later to identify any potential negotiations with additional third parties.
2. ***Conservation issues:*** Are wetlands on the site? Are they regulated by the state or federal government? Is the site in an established flood plain area? Reviewing local or county soils and flood plain maps will reveal these facts. Additionally, if you suspect that the site may be home to some rare species of plant or animal life, consult with a qualified botanist or biologist to avoid any surprises.
3. ***Environmental dilemmas:*** Phases I and II audits may be warranted on the site-certainly any financial institution will require a preliminary study. Understanding state and federal environmental protection laws is important; however, be sure to include the reporting criteria from your lender in any requests for proposals to environmental review companies, because many of their guidelines now go beyond state or federal regulations.

Assembling a qualified and experienced team of professional consultants is critical to the success of any project. Site selection and development focus on managing the process versus monitoring the transaction.

The Players

In addition to the developers, professional consultants, brokers, and tenants, today communities themselves are very much a part of the success or failure of proposed retail projects. Citizens are more educated, sophisticated, and involved in the development of their communities. Organized grass-roots efforts opposing retail projects are no longer the exception but the norm. Community public relations is an important early step to identify opposition groups and potential objections so that issues can be negotiated and projects are presented in a manner that will win all necessary approvals. Satisfying the concerns of the municipal planning and zoning boards is critical; however, the potential always exists for a “change of heart” by one board member as a result of pressures from organized, vocal opposition-which could prove fatal to a project. In a few areas, the competition among tenants has created direct or indirect opposition for projects-an expensive lesson to learn and too often overlooked by developers.

Increased site costs, costs to development of community opposition, high land prices, and changing tax laws, including the new impairment standard (FASB Statement number 121) and IRS Section 263A (capitalizing unimproved land development costs) have contributed to rising project costs. As a result, many retailers have found themselves in the development business to maintain already thin profit margins and meet their objectives for new locations. Other new players in the site development arena include real estate investment trusts, which will continue to see mergers as shareholders demand favorable returns.

The changing rules of retail raise as many questions about site selection as they answer. For instance, what will happen when category-killer retailers finally “kill” off each other? Will we see a vast landscape of big boxes waiting for redevelopment? Will cyber retailing live up to its hype and actually decrease the need for retail space? Consider the coming decrease in disposable income-expected to drop off after 1996-as well as the compression of the retail cycle (concepts that once took 10 years to mature now fade after five or six years).

These are the factors that will continue to influence retailers in their search for perfect locations. Flexibility and preparedness will aid savvy developers and brokers in staying one step ahead of the game.

Notes

Caution The local and state legal and regulatory environment can have a significant effect on operating stores costs for retailers.

6.7 Legal Considerations in Retailing

Retailers have realized the advantages of reflecting an ethical sense in business operations. The organizational environment plays a major role in the kind of ethical sense the employees possess. Retailers are trying to ensure that their employees behave ethically. Though there are many laws influencing the business environment of the retailer, there are many more aspects that come under the purview of ethics. These aspects concern the merchandise buying and selling practices in the firm. Retailers also need to be socially responsible and environmentally concerned. They often undertake activities that are beneficial to the society. Retailers are also taking measures for waste reduction, trying to recycle the materials used and are switching over to environment friendly packaging materials.

Legislation governs the retail firm's operations and relations with its channel partners. Its relations with suppliers, competitors, consumers and employees are governed by appropriate laws. Legal restrictions are imposed on practices concerning pricing, product, promotion, distribution, trademarks and HR policies.

Self Assessment

Fill in the blanks:

6. .... formulas can be used to determine a companies stability, long term growth, and investment potential.
7. .... and other attached, adjoining retail locations will also have guidelines or rules for how they prefer their tenants to do business.
8. The .... or office building may be another option for a retailer, especially when they cater to other businesses.
9. .... is making a dramatic impact on the retail industry as a whole.
10. .... have realized the advantages of reflecting an ethical sense in business operations.
11. The .... plays a major role in the kind of ethical sense the employees possess.

6.8 Location Considerations for Retail Business

One of the most dangerous times in the life of a small retail business is when the owner must relocate because the business is growing and the existing facility is no longer adequate. This is a nice problem to have, but choosing the wrong new location can kill the growing business. Retail locations must have high visibility and easy accessibility to succeed. There are many criteria to consider when choosing a new location. Too often, business owners make assumptions about the new location without taking time to do the necessary research to evaluate the decision. The following discussion includes some of the most important location considerations for a retail business.

Choose a High Density Area: This seems obvious, but many times business owners assume a location is right and that there are plenty of potential customers without actually looking at the numbers. Take time to research the area and find out the actual population of the area and the make-up of the population.

Choose a Growing Area: In addition to knowing the population of an area, be sure to research the growth that is taking place, in terms of both residential population and number of business establishments. Look for new construction of subdivisions, office buildings, shopping centers, etc.

Consider Customer Convenience: The flow of customers into, throughout, and out of your store should be easy and convenient for the customers. Without proper planning, it is easy to design your location for the convenience of owners, store operations, and employees without taking customer satisfaction into consideration.

Consider the Parking Situation: Not only should there be plenty of parking for your customers, it should be convenient and safe. Customers tend to want to park very close by your entrance and are concerned about remote and poorly lit parking areas. Also, be sure the parking lot is level, smooth, with well marked spaces and arrows indicating flow of vehicles. Make sure customers have plenty of room to park and to maneuver.

Beware of Curves: Locating on a curve can make it difficult for approaching vehicles to see your business from very far off. By the time they see your business, it may be difficult and even dangerous for them to stop and turn into your location.

This is particularly true of locations on the inside of curves. And once they have passed you, they are unlikely to turn around and come back due to the inconvenience.

Beware of Dead Ends: Dead end roads mean there will be less traffic moving back and forth in front of your location. And a no-outlet dead end road reduces traffic even more and is an inconvenience for potential customers.

Beware of One-Way Streets: Locating on a one-way street exposes your business to the traffic traveling in only one direction. In addition, it will be more difficult for your potential customers to access your location.

Choose the Correct Side of the Street: Consider which side of the street may be more beneficial to your particular type of business. Learn about the traffic patterns in the area. Evaluate your customers' habits and determine whether your location should be more convenient for persons traveling to work, from work, or to run errands and accomplish shopping goals.

Note After identifying several sites for locating a retail store, the next important step is to understand trade area characteristics.

6.9 Evaluating a site for Locating a Retail Store

In making this decision, retailers consider the following three factors:

1. The characteristics of the site.
2. Trading area characteristics.
3. The estimated potential that can be generated by a store at the site.

Where you choose to locate your retail business will have a major impact on everything your shop does. The difference between selecting the wrong location and the right site could be the difference between business failure and success.

Before choosing a retail store location, define how you see your business, both now and in the future.

1. What do your customers look like?
2. Can you visualize your building?
3. Do you know what you want to sell and what you want your business to be known for?
4. Have you determined how much retail space, storage area, or the size of the office you need?

Without the answers to these basic questions, it will be hard to find the perfect location for generating the maximum amount of profit for your retail store.

Type of Goods

Examine what kind of products you sell, as some goods will require certain types of locations. Would your store be considered a convenience store, a specialty shop or a shopping store?

Convenience goods require easy access, allowing the customer to quickly make a purchase. A mall would not be a good location for convenience goods. This product type is lower priced and purchased by a wide range of customers.

Specialty goods are more unique than most products and customers generally won't mind travelling out of the way to purchase this type of product. This type of store may also do well near other shopping stores.

A **shopping** store usually sells items at a higher price which are bought infrequently by the customer. Furniture, cars and upscale clothing are examples of goods found at a shopping store. Because the prices of theses items are higher, this type of customer will want to compare prices before making a purchase. Therefore, retailers will do well to locate their store near like stores.

6.10 Trade Area Characteristics

Trade area analysis and mapping describe the characteristics of the area around a store or network of stores. Without accurate trade area definitions, you cannot measure the key statistics that impact a store's performance.

Use trade area analysis to aid site selection and target marketing.

Trade area analysis and mapping tell you:

1. Where a store's customers are coming from
2. How many customers you have in a trade area
3. Where to look for more customers

Benefits of Trade Area Analysis

1. Identify gaps or overlaps in the market coverage of your existing store network, and make corrections by opening, closing or moving stores.
2. Make better site selection decisions by using characteristics of existing trade areas to predict trade areas around potential locations.
3. Define a geographic area to analyze for market potential, market penetration, and competitive threats.

4. Become more efficient and effective at target marketing by reaching out only to those customers and prospects in a store's trade area.
5. Use as a key input into customer profiling

Factors that Impact Trade Areas

Analyzing trade areas should be performed regularly to provide key metrics for improving sales and marketing performance.

Adding new stores to your network will cause the trade area of nearby stores to change. In a saturated market, or if stores are placed too close to one another, cannibalization can occur.

A change to product offerings will impact the trade area, as will shifts in population and demographics, the existence of competitors, changes to highways and roads, and the addition of other businesses that attract people to the area.

A trade area analysis typically includes:

1. Mapping existing customers in relation to store locations
2. Calculating distance/drive times from customers to store locations
3. Determining all variables that define and impact your trade areas
4. Developing a model for predicting trade areas around new sites
5. Using the results as an input into analyzing market potential or customer profiling or to help make decisions about site selection or targeted marketing.

Did u know? A trade area is a neighbouring geographic area that accounts for the majority of a store's sales and customers.

Self Assessment

Fill in the blanks:

12. Dead end roads mean there will be less traffic moving back and forth in front of your ....
13. .... goods require easy access, allowing the customer to quickly make a purchase.
14. .... goods are more unique than most products and customers generally won't mind traveling out of the way to purchase this type of product.
15. A .... store usually sells items at a higher price which are bought infrequently by the customer.

Case Study

Retail Enterprise Business Management

Clear visibility into its stores' revenue-generating operations, a window into its "behind the scenes" operations and a way to bring everything together while retaining the ability to drill down right down to an individual store - These were a leading Retail establishment's principal needs when it approached Sentini Technologies

Contd....

Notes

and asked us to build an Enterprise Management System to manage its business, end to end. Sentini Technologies first took great pains to understand the company's core business. As a result, the Business Service Management system that Sentini Technologies designed and implemented treated the Retailer as a single entity with multiple subunits each influencing and affecting the other. At the same time, Sentini Technologies made sure that the company's bread-and-butter store operations' management remained the centerpiece of the entire BSM system.

The Customer and the Challenge

The customer was a large retail establishment and was looking for a management system with the ability to manage all revenue-generating aspects of the stores - gather transaction records at the store level from all of its stores, look for and report exceptions based on sale processing times, look for unusually low transaction volumes, provide prominent coverage to its top revenue generating stores, identify stores with the least amount of average monthly revenues, etc. Also important to the customer was the ability to reconcile store transaction records with its inventory systems so that inventory levels as a function of time and as a function of store sales activity were constantly visible to its operations team (as a supplement to its existing supply chain management system).

Additionally, this Retailer wanted to manage a multitude of internal systems and applications. These included the Retailer's Online Store that accounted for a significant percentage of its total monthly revenues, the Network Equipment that connected all of its thousands of stores to Retail HQ, Corporate Email, the Store and Internal Helpdesk systems, its mission-critical Mainframes et al.

Finally, the Retailer wanted to bring all collected data together into a single "window" so its Operational Management team could view (and act upon, if need be) various business services and their performance in a single "pane of glass" thereby increasing the team's operational efficiencies manifold.

Sentini Technologies' Solution Highlights

With thousands of stores, Sentini Technologies determined that the best way to present data harvested from the Retailer's store and internal resources was in the form of a Business Services' dashboard that would, at a glance, present key information about the health and performance of the Retailer's bricks-and-mortar (and online) presence.

Choosing the IBM Net cool suite of products as the underlying technology on which to build the solution, Sentini Technologies created intelligent correlation criteria for the data collected from the Retailer's stores, internal IT network, its Mainframes and its Online Store, among other systems and resources that are under the purview of the Business Service Management system. The Dashboard that Sentini Technologies designed correlates and analyzes the collected data and updates the Retailer's Web Services, Financial Systems, Internet Gateway and Security services' statuses. Since other groups within the Retailer needed this data presented in various other formats, the results of Sentini Technologies' approach to meet those requirements. Also created for the Retailer were different reports that analyze and present BSM data in terms of store revenues, working off an archival database. These include reports that calculate the average health of the top revenue generating stores, identify the least revenue generating stores, identify consistently poorly performing store links, etc.

Other visual indicators that were designed for the Retailer identify the top 10 and top 40% store health (top 10 and top 40% defined in terms of revenue generation by store) statuses

Contd....

(which are also updated in real-time). Additionally, handy "smart" visual indicators of the status of other internal units and systems (such as the Online Store, the Mainframes, etc.) have also been created. Since trending is an important part of any data observation and analysis process, a 30-day rolling window constants is also available to show the variation in the aggregate store network's health (over the previous 30 days).

The ability to get the "big picture" is no doubt invaluable, but often, Operational Support teams like to drill down as much as possible so that, the root cause of a problem is isolated. In this case, by providing such an ability with the Business Services' dashboard, Sentini Technologies allows the Retailer's team to drill down into, say, the "Financial Systems" dashboard entity and find out how a particular store's POS system performance is responsible for dragging down this key indicator in the Business Services' dashboard.

Solution Benefits

Sentini Technologies spent a large amount of time understanding the Retailer's business and then designed and customized its Business Service Management solution, and the benefits from this system to the Retailer were obvious as soon as the system was put into production.

- Improve awareness of the impact of various store systems' generated events on the bottom-line quickly by directing attention to poorly performing or under-performing stores very easily.
- Ensure that network and system issues are identified and tackled before they escalate into major problems by analyzing network and system performance and identifying bottlenecks and problem spots.
- *Enable faster decision-making* - Using the intelligence built into the Business Server Management system, the number of man-hours needed to analyze collected data was vastly reduced
- *Provide visibility into the details while retaining the big picture* - Most store-derived entities allow users to drill down right down to an individual store. A network-derived entity would provide users the ability to drill right down to an individual circuit or fault alarm.
- *Improve the Retailer's operational management team's efficiency by eliminating the need to view multiple data repositories and systems* - All collected data is correlated, analyzed and presented in a single window.
- Provide the operational management team with the ability to customize the Business Service Management system to a very large extent, thanks to the open architecture of the underlying technology.
- *Grow with the Retailer's needs:* The highly scalable and modular nature of the BSM lets the Retailer easily integrate other devices and systems that may be added to the Retailer's infrastructure in future.

Why Was Sentini Technologies Chosen?

As a leading provider of Enterprise Management solutions targeted at companies in the Enterprise, Telecommunications, ISP, Financial and Utility sectors, Sentini Technologies' engineers have, between them, built around 70 Network and Enterprise Operational Centers.

Contd....

With our vast experience in managing customers' service offerings and business services, some of the features of our solutions that make us stand out in the Enterprise Management space are:

- ***Independent of restrictive Frameworks:*** Our Solutions are made up of individual "best-in-class" products. We thereby avoid having to fit our solutions into restrictive Framework product suites, allowing Sentini Technologies to propose the best solutions for our Clients' needs.
- ***Fixed Cost Approach:*** Since our projects are fixed-cost projects, there are no budget overruns since the deliverables [and Customer expectations] are set clearly at the time the SOW is signed.
- ***Round the clock development and support:*** There are no interruptions in the development cycle since the Indian team picks up the US team's developmental efforts at the end of each (US) day. This also helps us provide our customers with 24/7 post-implementation support and maintenance.

Solution Snapshots

Presented here are a series of snapshots taken from the Business Service Management solution created for the Retailer. Each snapshot shows a different aspect (operationally) of how information was organized and presented to the Retailer's NOC users.

Questions:

1. What are the features that enabled Sentini to Standout?
2. What was the biggest challenge for Sentini Technologies?

Source: http://www.sentinitech.com/cstudies_retail.html

6.11 Summary

- A primary goal of retail marketing is understanding the connections between the customer's lifestyle and spending characteristics and why they choose one product over another.
- Businesses must test to ensure that they are sending the appropriate message to the appropriate households.
- To increase customer loyalty, businesses must develop relationships with customers, continually selling the value of the product in their situation.
- The Strategic Profit Model is a crucial part of understanding how different retail strategies can be used to pursue similar financial goals.
- A standard measure of financial success is Return on Equity (ROE). It is a simple calculating method using the simple formula of net income divided by owner's equity.
- In performance management is concerned in terms of process execution monitoring and analysis.
- Strip malls and other attached, adjoining retail locations will also have guidelines or rules for how they prefer their tenants to do business.
- Retailers have realized the advantages of reflecting an ethical sense in business operations.
- The organizational environment plays a major role in the kind of ethical sense the employees possess.

- **Convenience** goods require easy access, allowing the customer to quickly make a purchase.
- **Specialty** goods are more unique than most products and customers generally won't mind traveling out of the way to purchase this type of product.
- Trade area analysis and mapping describe the characteristics of the area around a store or network of stores.

6.12 Keywords

Convenience goods: They require easy access, allowing the customer to quickly make a purchase. A mall would not be a good location for convenience goods. This product type is lower priced and purchased by a wide range of customers.

Exclusivity clause: This protects you by asking the landlord to agree to not place a competing business in his center, or, if it's a large mall, within so many feet of your business.

Retail Sales Potential: It provides estimates and projections of consumer potential organized by store type.

Specialty goods: They are more unique than most products and customers generally won't mind travelling out of the way to purchase this type of product. This type of store may also do well near other shopping stores.

Strategic Profit Model: The Strategic Profit Model is a crucial part of understanding how different retail strategies can be used to pursue similar financial goals.

6.13 Review Questions

1. Describe the financial objectives and goals.
2. Explain the strategic profit model.
3. Describe the analysis of financial strength.
4. Explain about types of locations.
5. Discuss about location and retail strategy.
6. Explain the legal considerations.
7. What do you know about trade area characteristics?
8. Analyse the potential sales of a store site.
9. Discuss about negotiating lease.
10. Discuss about common area maintenance.

Answers: Self Assessment

1.	Businesses	2.	Strategic Profit Model
3.	Return on Equity	4.	Households
5.	Customer Loyalty	6.	Financial Ratio
7.	Strip Malls	8.	Business Park
9.	Technology	10.	Retailers
11.	Organizational Environment	12.	Location

Notes

13. Convenience
14. Specialty
15. Shopping

6.14 Further Readings

Books

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

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http://retail.about.com/od/location/a/retail_location.htm

http://www.ccim.com/cire-magazine/articles/retail-location-strategies

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Unit 7: Human Resource Management

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Objectives

Introduction

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7.4 Managing Diversity

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7.6 Ethical Issues Facing HR

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7.8 Keywords

7.9 Review Questions

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Objectives

After studying this unit, you will be able to:

- Explain about objectives of Human Resource Management
- Discuss about Issues in retail human resource
- Design the organization structure of retail firm
- Explain about managing diversity
- Discuss legal issues in human resource

Introduction

Human resource management (HRM or simply HR) is the management of an organization’s workforce, or human resources. It is responsible for the attraction, selection, training, assessment, and rewarding of employees, while also overseeing organizational leadership and culture, and ensuring compliance with employment and labor laws. In circumstances where employees desire and are legally authorized to hold a collective bargaining agreement, HR will typically also serve as the company’s primary liaison with the employees’ representatives (usually a labor union).

HR is a product of the human relations movement of the early 20th century, when researchers began documenting ways of creating business value through the strategic management of the workforce. The function was initially dominated by transactional work such as payroll and benefits administration, but due to globalization, company consolidation, technological advancement, and further research, HR now focuses on strategic initiatives like mergers and acquisitions, talent management, succession planning, industrial and labor relations, and diversity and inclusion.

In startup companies, HR's duties may be performed by a handful of trained professionals or even by non-HR personnel. In larger companies, an entire functional group is typically dedicated to the discipline, with staff specializing in various HR tasks and functional leadership engaging in strategic decision making across the business. To train practitioners for the profession, institutions of higher education, professional associations, and companies themselves have created programs of study dedicated explicitly to the duties of the function. Academic and practitioner organizations likewise seek to engage and further the field of HR, as evidenced by several field-specific publications.

7.1 Objectives of Human Resource Management

Objectives are predetermined goals to which individual or group activity in an organization is directed. Objectives of personnel management are influenced by organizational objectives and individual and social goals. Institutions are instituted to attain certain specific objectives. The objectives of the economic institutions are mostly to earn profits, and of the educational institutions are mostly to impart education and/or conduct research so on and so forth. However, the fundamental objective of any organization is survival. Organizations are not just satisfied with this goal. Further the goal of most of the organizations is growth and/or profits.

Institutions procure and manage various resources including human to attain the specified objectives. Thus, human resources are managed to divert and utilize their resources towards and for the accomplishment of organizational objectives. Therefore, basically the objectives of HRM are drawn from and to contribute to the accomplishment of the organizational objectives. The other objectives of HRM are to meet the needs, aspirations, values and dignity of individual employees and having due concern for the socio-economic problems of the community and the country.

The objectives of HRM may be as follows:

1. To create and utilize an able and motivated workforce, to accomplish the basic organizational goals.
2. To establish and maintain sound organizational structure and desirable working relationships among all the members of the organization.
3. To secure the integration of individual or groups within the organization by coordination of the individual and group goals with those of the organization.
4. To create facilities and opportunities for individual or group development so as to match it with the growth of the organization.
5. To attain an effective utilization of human resources in the achievement of organizational goals.
6. To identify and satisfy individual and group needs by providing adequate and equitable wages, incentives, employee benefits and social security and measures for challenging work, prestige, recognition, security, status.
7. To maintain high employees morale and sound human relations by sustaining and improving the various conditions and facilities.
8. To strengthen and appreciate the human assets continuously by providing training and development programs.
9. To consider and contribute to the minimization of socio-economic evils such as unemployment, under-employment, inequalities in the distribution of income and wealth and to improve the welfare of the society by providing employment opportunities to women and disadvantaged sections of the society.

10. To provide an opportunity for expression and voice management.
11. To provide fair, acceptable and efficient leadership.
12. To provide facilities and conditions of work and creation of favorable atmosphere for maintaining stability of employment.

Management has to create conductive environment and provide necessary prerequisites for the attainment of the personnel management objectives after formulating them.

Did u know? While employee productivity is directly related to retailers' short-term profits, employee attitudes such as job satisfaction and commitment have important effects on customer satisfaction and subsequent long-term performance of the retailer.

7.2 Issues in Retail Human Resource

The retail industry is a driving force in the American economy, so much so that news reports often base at least part of their perception of the economy on how the retail industry is performing. Aside from the major economic ebb and flow of the buying seasons and how they affect retail sales, the retail industry as a whole has a number of other major problems that it must often deal with.

Employee Turnover

Lack of worker continuity, or employee turnover, is one of the major problems faced by the retail industry. Columbus IT notes that the typical turnover rate in North American retail is much higher than in European countries and often ranges between 200 and 300 percent. Employees coming in and out of your business as if it were a revolving door only creates problems for human resource professionals who must constantly find and train new staff, which can eat up valuable time and resources.

Auditing

Auditing is another problem that the retail industry faces on a regular basis. Retail businesses are regularly engaged in competition with one another, and this competition can create price wars, forcing a need to keep tight control over inventory and other important data. Metric Stream, Inc. notes that the retail industry is often faced with inefficient and poor auditing plans that make competing with other companies difficult. The company notes that existing auditing systems may be outdated and provide inadequate audits needed to stay competitive.

Economic Challenges

Another area of challenge for the retail industry is the economic uncertainty it faces moving forward. The retail industry as a whole is largely dependent upon the economic well being of the nation. As the nation prospers and people have more money to spend, the retail industry generally flourishes. However, in more difficult economic times, the retail industry is often faced with potential shrinkage. Columbus IT also indicates that the future uncertainty of global economic markets makes economic planning difficult in the retail world.

Technology

Keeping up with the pace of modern technology is another problem the retail industry faces. For instance, retail point of sale technology often uses computer systems that are several years behind the computer industry as a whole. An article in Mobile Commerce Daily by Peter Finocchiaro points out that the inability of retail industry technology to keep up with initiatives such as mobile digital coupons is a problem that the industry regularly faces. Given the rate of turnover and the constantly changing economic environment, constantly upgrading and keeping their equipment and networks running on the newest technologies can be difficult for retail leaders.

Note Employees can play a major role in differentiating in retailer's offering from its competitors.

Self Assessment

Fill in the blanks:

1. .... are predetermined goals to which individual or group activity in an organization is directed.
2. .... is another problem that the retail industry faces on a regular basis.
3. The .... industry as a whole is largely dependent upon the economic well being of the nation.
4. The .... notes that existing auditing systems may be outdated and provide inadequate audits needed to stay competitive.
5. Columbus IT also indicates that the future uncertainty of .... economic markets makes economic planning difficult in the retail world.

7.3 Designing the Organization Structure for a Retail Firm

Organization structure described as a formal system by which various activities to be performed by employees are identified and determined, indicating the line of authority and responsibility in the firm. It is the formal system of task and reporting relationships that controls, coordinates and motivate employees so that they cooperate to achieve an organization’s goal. A retailer can’t survive unless its organization structure satisfies the need of the target market.

The considerations for Organization Structure are as follows:

1. It should encourage employees to work and develop cooperation among employees in work.
2. Allow people and groups to cooperate and work effectively.

Organization design is a process where in managers select and manage various dimension and components of organizational structure and culture to achieve organization’s goals.

The considerations for Organization Design are as follows:

1. Should focus of specialization
2. Matching authority and responsibility
3. Determining the reporting relationship
4. Focus of retail strategy

The organizational structure of a retail store will vary by the size and type of the business. Most tasks involved with operating a retail business will be the same. However, small or independent retail stores may combine many sectors together under one division, while larger stores create various divisions for each particular function along with many layers of management.

Example: The small specialty shop may have all of its employees under one category called Store Operations. A large department store may have a complete staff consisting of a manager, assistant manager and sales associates for its Sporting Goods department, Home and Garden, Bed and Bath, and each additional department.

In order to define the store's organization, start by specifying all tasks that need to be performed. Then divide those responsibilities among various individuals or channels. Group and classify each task into a job with a title and description. The final step is to develop an organizational chart.

Task Describe about Considerations for Organization Design.

Retailing Structure

The following is a brief outline of some of the divisions in a retail organization.

Owner/CEO or President

Store Operations: Management, Cashier, Sales, Receiving, Loss Prevention

Marketing: Visual Displays, Public Relations, Promotions

Merchandising: Planning, Buying, Inventory Control

Human Relations: Personnel, Training

Finance: Accounting, Credit

Technology: Information Technology

As the store grows and the retail business evolves, the dynamics of the organization's structure will change too. Therefore it is paramount to redesign the store's organizational chart to support the decision-making, collaboration and leadership capabilities that are essential during and after a growth period.

An organizational structure is a principally hierarchical perception of subordination of entities that work together and add to serve one universal aim. Organizations are a variation of clustered entities. An organization can be prearranged in numerous diverse ways and styles, depending on their objectives and aim. The Organizational structure identifies the activities to be performed by specific employees and determined the line of authority and responsibility in the firm. An efficient organizational structure shall smooth the progress of working relationships between a variety of entities in the organization and may progress the working competence within the organizational units.

In the present scenario organizational structure had a paradigm shift from Vertical structure to horizontal one. There are certain steps which can facilitate an organizational structure. We will take into consideration gradually.

Steps in Developing Organizational Structure

The first step in developing organizational structure is to establish the task that must be performed in a retail firm.

These tasks performed at the retail firm are divided into four broad categories:

Strategic Management	Merchandising Management	Operations Management	Store Management

Notes

Tasks performed under strategic management are:

1. Develop a retail strategy
2. Identify the target market
3. Determine the retail format
4. Design organizational structure
5. Select store location

Tasks performed under Merchandising Management are:

1. Buy merchandise
2. Locate vendors, Evaluate Vendors
3. Negotiate with Vendors
4. Control merchandise inventory
5. Develop merchandise budget plans
6. Review open-to-buy stock positions
7. Price Merchandise
8. Discounts

The tasks performed by Store Management are:

1. Recruit, hire, train store personnel
2. Plan work schedule
3. Evaluate performance
4. Maintain store facility
5. Locate and display merchandise
6. Provide services like gift wrapping
7. Handle customer complaints
8. Prevent inventory shrinkage

The tasks performed by Operations Management are:

1. Promote the firm, its merchandise and services
2. Plan communication programs and budget
3. Select media
4. Manage public relations
    - (a) Manage human resource
        - (i) Develop policies
        - (ii) Plan career paths
    - (b) Distribute merchandise
        - (i) Locate warehouses
        - (ii) Receive merchandise

    (iii) Mark n label merchandise,
    (iv) Store merchandise, Sending merchandise to store
    (v) Return merchandise to vendor

(c) Establish financial control

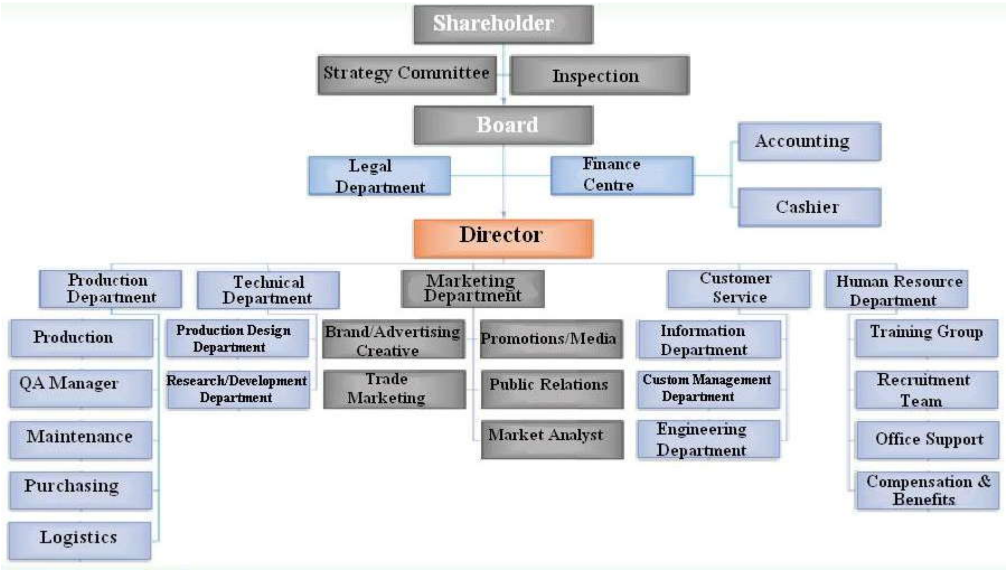
    (i) Provide timely information on financial performance
    (ii) Forecast sales, cash flow, profits.

Once the tasks have been identified, the retailer groups them into jobs to be assigned to specific individuals and determines the reporting relationships. Rather than performing the entire task mentioned above, individual employees are typically responsible for only one or two tasks. Care should be taken that employee is not burdened by too many tasks, at the same time to few task will lead to boredom.

Productivity increases when employees have the proper amount of authority to effectively undertake the responsibility assigned to them. E.g. buyers who are responsible for the profitability of a merchandise category need to have the authority to make decision that will enable them to fulfil this responsibility. They should have the authority to select and price the merchandise for their category and determine how the merchandise is displayed and sold.

After assigning tasks to employees, the final step is to determine the reporting relationship. Productivity can decrease when too few or too many employee report to a supervisor. The number of subordinates is greater when they perform simple standardize tasks, when they're well trained and competent, and they perform tasks at the same location as the supervisor.

Figure 7.1: Retail Enterprise Organisational Chart


Shareholder
Strategy Committee
Inspection
Board
Legal Department
Finance Centre
Accounting
Cashier
Director
Production Department
Technical Department
Marketing Department
Customer Service
Human Resource Department
Production
QA Manager
Maintenance
Purchasing
Logistics
Production Design Department
Research/Development Department
Brand/Advertising Creative
Trade Marketing
Promotions/Media
Public Relations
Market Analyst
Information Department
Custom Management Department
Engineering Department
Training Group
Recruitment Team
Office Support
Compensation & Benefits

Caution Productivity increases when employees have the proper amount of authority to effectively undertake the responsibility assigned to them.

Retail Organizational Structure

Retail organizational structure differs according to the type of retailer and the size of the firm. A retailer with a single store will have a completely different structure that a national chain. Owner-manager of a single store may be the entire organization. As sales grow, the owner-manager hires employees. Coordinating and controlling employees in a small store is easier. The owner-manager simply assigns task to each employee and watches to see that these tasks are performed properly. Each employee must perform a wide range of activities, and the owner manager is responsible for all management tasks.

As sales increases, specialization in management may occur when the owner manager hires additional management employees. The owner manager continues to perform strategic management tasks. The store manager may be responsible for administrative task associated with receiving and shipping merchandise and managing employees.

In contract to the management of a single store, retail chain management is very complex. Managers must supervise units that are geographically distant from each other. In most large retail firms the two senior executives, typically called the CEO and COO, work closely together in managing the firm. One is primarily responsible for the merchandise and marketing activities of the firm and the other is responsible for the stores, human resource, distribution, information systems and finance divisions.

Key activities like Merchandise, planning, marketing, finance, visual merchandising and human resources are managed from the corporate headquarters.

Did u know? The organisations structure identifies the activities to be performed by specific employers and determines the lines of authority and responsibility in the firm.

Self Assessment

State whether the following statements are true or false:

6. The organizational structure of a retail store will vary by the size and type of the business.
7. An organizational structure is a principally hierarchical perception of subordination of entities that work together and add to serve one universal aim.
8. Retail increases when employees have the proper amount of authority to effectively undertake the responsibility assigned to them.
9. In contract to the management of a double store, retail chain management is very complex.
10. Key activities like Merchandise, planning, marketing, finance, visual merchandising and human resources are managed from the corporate headquarters.

7.4 Managing Diversity

Diversity in the workplace means bringing together people of different ethnic backgrounds, religions and age groups into a cohesive and productive unit. Advances in communication technology, such as the Internet and cellular phones, have made the marketplace a more global concept. In order to survive, a company needs to be able to manage and utilize its diverse workplace effectively. Managing diversity in the workplace should be a part of the culture of the entire organization.

Step 1

Confirm that all of your personnel policies from hiring to promotions and raises are based on employee performance. Avoid allowing tenure, ethnic background or any other kind of category into your human resources policies. Managing a diverse workplace begins with strong policies of equality from the company. Once these policies are in place, the company can begin implementing diversity measures throughout the entire organization.

Step 2

Rate the qualifications of the candidate based on the quality of his experience, not age or any other category, when hiring. When you hire a diverse but qualified workforce, you are on the right track towards being able to manage the diversity in your company.

Step 3

Encourage diversity when creating teams and special work groups within the company. If a manager creates a work group that does not utilize the skills of the most qualified employees, then insist that the group be changed to include all qualified staff members.

Step 4

Treat complaints of favoritism or discrimination seriously. Encourage employees to report all instances of discriminatory behavior, and have a definitive process in place for investigating and dealing with these issues.

Step 5

Hold quarterly trainings for the entire staff on the benefits of diversity in the workplace. Encourage discussions at these meetings on how the company can better manage workplace diversity.

To address diversity issues, consider these questions: what policies, practices, and ways of thinking and within our organizational culture have differential impact on different groups? What organizational changes should be made to meet the needs of a diverse workforce as well as to maximize the potential of all workers, so that San Francisco can be well positioned for the demands of the 21st century?

Most people believe in the golden rule: treat others as you want to be treated. The implicit assumption is that how you want to be treated is how others want to be treated. But when you look at this proverb through a diversity perspective, you begin to ask the question: what does respect look like; does it look the same for everyone? Does it mean saying hello in the morning, or leaving someone alone, or making eye contact when you speak?

It depends on the individual. We may share similar values, such as respect or need for recognition, but how we show those values through behavior may be different for different groups or individuals. How do we know what different groups or individuals need? Perhaps instead of using the golden rule, we could use the platinum rule which states: “treat others as they want to be treated.” Moving our frame of reference from what may be our default view (“our way is the best way”) to a diversity-sensitive perspective (“let’s take the best of a variety of ways”) will help us to manage more effectively in a diverse work environment.

Caution There can be possible lawsuits and legal tangles from disaffected employees who feel aggrieved because of instances of discrimination and harassment based on their ethnicity or gender.

Your Role

You have a key role in transforming the organizational culture so that it more closely reflects the values of our diverse workforce. Some of the skills needed are:

1. an understanding and acceptance of managing diversity concepts
2. recognition that diversity is threaded through every aspect of management
3. self-awareness, in terms of understanding your own culture, identity, biases, prejudices, and stereotypes
4. willingness to challenge and change institutional practices that present barriers to different groups

It's natural to want a cookbook approach to diversity issues so that one knows exactly what to do. Unfortunately, given the many dimensions of diversity, there is no easy recipe to follow. Advice and strategies given for one situation may not work given the same situation in another context.

Managing diversity means acknowledging people's differences and recognizing these differences as valuable; it enhances good management practices by preventing discrimination and promoting inclusiveness. Good management alone will not necessarily help you work effectively with a diverse workforce. It is often difficult to see what part diversity plays in a specific area of management.

To illustrate, the following two examples show how diversity is an integral part of management. The first example focuses on the area of selection, the second example looks at communication:

Issues

1. How do you make the job sound appealing to different types of workers?
2. How can recruitment be effectively targeted to diverse groups?
3. How do you overcome bias in the interviewing process, questions, and your response?

Strategies

1. Specify the need for skills to work effectively in a diverse environment in the job, for example: "demonstrated ability to work effectively in a diverse work environment."
2. Make sure that good faith efforts are made to recruit a diverse applicant pool.
3. Focus on the job requirements in the interview, and assess experience but also consider transferable skills and demonstrated competencies, such as analytical, organizational, communication, coordination. Prior experience has not necessarily mean effectiveness or success on the job.
4. Use a panel interview format. Ensure that the committee is diverse, unit affiliation, job classification, length of service, variety of life experiences, etc. to represent different perspectives and to eliminate bias from the selection process. Run questions and process by them to ensure there is no unintentional bias.

5. Ensure that appropriate accommodations are made for disabled applicants.
6. Know your own biases. What stereotypes do you have of people from different groups and how well they may perform on the job? What communication styles do you prefer? Sometimes what we consider to be appropriate or desirable qualities in a candidate may reflect more about our personal preferences than *about the skills needed to perform the job*.

Task Discuss about Legal Issues in HR.

Caselet

Retail Buzz in South

Chennai and Bangalore have witnessed the highest high-street rental growth across India, according to a retail survey by real-estate services firm, Cushman & Wakefield. Banjara Hills in Hyderabad has seen the highest increase in annual rental growth at 114 per cent over last year, while Nugambakkam/Khader Nawas Khan Road in Chennai witnessed rental growth of 106 per cent. SP Road/Begumpet in Hyderabad and Koramangala 80 Feet Road in Bangalore have seen 100 per cent and 92 per cent growth respectively.

Mr Rajneesh Mahajan, National Head, Retail, Cushman and Wakefield India, says, "The economic growth in southern India has provided a large consumer base with increased spending power. The retailers are enjoying better revenues in these markets not only from the existing retail destinations but also in the suburban locations. As the store revenues become comparable to Delhi and Mumbai, the demand for retail real estate would push the prices closer to these two markets."

Banjara Hills and Jubilee Hills, though traditional markets, are preferred by new-age retailers; demand for space here far supersedes the supply. Begumpet witnessed cent percent increase in rentals over the last year, indicating strong demand dynamics.

Source: thehindubusinessline.com

7.5 Legal Issues in Human Resource

Board members must be aware of the obligations and responsibilities that are provided under both the Federal and State statutory framework, as well as under contracts, statutory agreements and awards.

Employment Law

There are several types of legal obligations related to employment law:

Statutes: Federal, State and Territory Governments have laws that prescribe the minimum conditions of employment that apply to paid staff.

Awards: These are legally enforceable terms and conditions of employment in an industry or employment sector. The Social and Community Services Employees (State) Award is the main award that applies to staff in non-government community services employment. Some community organisations also employ staff whose job roles are covered as part of other industry sector awards (such as bus drivers, cooks and cleaners).

Contracts: An employment contract will exist between the employer and the employee in all types of employment relationships. The contract must be well drafted and meet minimum legal and award requirements, clearly describe the specifics of the job and the organization's requirements of the employee.

Statutory agreements: Statutory agreements are the product of negotiations between an organisation and a group of employees or a union(s) that are subsequently registered by an industrial tribunal. Negotiating an agreement has the advantage of considering the inclusion of provision(s) that are specific to the needs of an organisation. Specific provisions may be included as a result of the negotiations but these cannot disadvantage employees, that is, they must provide the minimum requirements provided for under an award or relevant statute. In the Federal jurisdiction these agreements are called Certified Agreements and at State level they are called Enterprise Agreements.

Common law: This is case law that is developed in the court system. Previous judgments guide how laws are interpreted. The general duties of the parties in an employment relationship are prescribed by common law.

7.6 Ethical Issues Facing HR

Organizational ethics are rules and standards that guide workplace behavior and moral principles. Many organizations establish a "code of ethics" that sets company expectations regarding ethical issues such as privacy, conflict of interest, discrimination and harassment and workplace diversity. Human resources personnel are charged with setting standards that promote ethical behavior in the workplace.

Discrimination and Harassment

Human resources professionals must ensure the organization remains compliant with anti-discrimination and harassment laws. Employee discrimination and harassment on the basis of race, gender or religion is an ethical issue human resources personnel face daily. Laws that prohibit discriminatory behavior such as the Civil Rights Act and Americans With Disabilities Act help HR representatives develop training and awareness programs to prevent discrimination and harassment in the workplace. These laws also establish procedures human resources may use to report and discipline workers who display inappropriate discriminatory behavior.

Privacy

Human resources are involved in most aspects of employee relations including hiring, firing, compensation, benefits and leaves. Human resources representatives have access to extremely sensitive information. Keeping this information private is an ethical matter facing HR. Human resources personnel have an obligation to maintain the confidentiality of an employee's personal data.

Diversity

Workplace diversity encompasses the various qualities, characteristics and experiences that distinguish one worker from another. These characteristics can be differences in race, gender, age, social status or other traits that make an individual unique. Treating a person differently because of these differences poses an ethical issue that faces human resources. HR personnel implement policies that promote diversity in the workplace and welcome the differences of the entire workforce.

Safety

Employee safety is an issue facing human resources personnel. The department must prevent and correct potentially dangerous situations. Human resources must promptly act on hazardous

Notes

conditions that present safety concerns in the workplace. The department is also responsible for identifying potentially dangerous employees and ensuring they do not harm themselves or others within the organization.

Self Assessment

Fill in the blanks:

11. .... ethics are rules and standards that guide workplace behavior and moral principles.
12. .... professionals must ensure the organization remains compliant with anti-discrimination and harassment laws.
13. Human resources representatives have access to .... sensitive information.
14. .... encompasses the various qualities, characteristics and experiences that distinguish one worker from another.
15. .... is an issue facing human resources personnel.

Case Study

Developing a Career Path in Retail in Harrods

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

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

To achieve this, Harrods has to counter some of the negative perceptions about working in retail. Working in a shop has traditionally been seen as low-skilled – with long hours, poor pay and little chance of promotion. However, because quality is key at Harrods, employees are well-paid, respected and have clear career paths open to them. Senior managers at Harrods have come from all walks of life and started out with various levels of qualifications. All have benefited from development opportunities provided by the company.

The Importance of Training and Development

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

Training is about gaining the skills needed for a job. These may be learned at the place of work (on-the-job) or away from work (off-the-job). On-the-job training tends to be more

Contd...

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

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

Diverse backgrounds

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

Amber is a Harrods Retail Manager who started as a Sales Associate at Harrods through an online application. However, Harrods Learning and Development ensured Amber acquired the skills she needed to carry out her role. Development at Harrods is linked to the company's Business Competencies which fall under four headings: Working at Harrods, Your Impact on Others, Making Things Happen, Focus on Improvements.

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

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

Developing a career path

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

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

Contd....

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

The Harrods Fashion Programme is run in partnership with the London College of Fashion. It enables sales associates to understand the entire 'product journey' from design to sale. The School of Communication offers voice, body language and presentation skills workshops. For suitable candidates, the Harrods Sales Degree provides the high level sales skills the company needs. This is the first and only degree of its kind in Sales. It is recognised globally and can be completed in two years.

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

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

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

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

Question:

What are the key factors by which Harrods maintains its high levels of employee retention?

Source: http://businesscasestudies.co.uk/harrods/developing-a-career-path-in-retail/careers-at-harrods.html#ixzz2NsIzbb00

7.7 Summary

- Objectives are predetermined goals to which individual or group activity in an organization is directed.
- The objectives of the economic institutions are mostly to earn profits, and of the educational institutions are mostly to impart education and/or conduct research so on and so forth.
- Institutions procure and manage various resources including human to attain the specified objectives.

- The retail industry is a driving force in the American economy, so much so that news reports often base at least part of their perception of the economy on how the retail industry is performing.
- Auditing is another problem that the retail industry faces on a regular basis.
- Organization structure described as a formal system by which various activities to be performed by employees are identified and determined, indicating the line of authority and responsibility in the firm.
- An organizational structure is a principally hierarchical perception of subordination of entities that work together and add to serve one universal aim.
- Productivity increases when employees have the proper amount of authority to effectively undertake the responsibility assigned to them.
- Diversity in the workplace means bringing together people of different ethnic backgrounds, religions and age groups into a cohesive and productive unit.
- Board members must be aware of the obligations and responsibilities that are provided under both the Federal and State statutory framework, as well as under contracts, statutory agreements and awards.

7.8 Keywords

Auditing: It is another problem that the retail industry faces on a regular basis. Retail businesses are regularly engaged in competition with one another, and this competition can create price wars, forcing a need to keep tight control over inventory and other important data.

Common law: This is case law that is developed in the court system. Previous judgments guide how laws are interpreted. The general duties of the parties in an employment relationship are prescribed by common law.

Contracts: An employment contract will exist between the employer and the employee in all types of employment relationships.

Employee safety: It is an issue facing human resources personnel. The department must prevent and correct potentially dangerous situations.

Statutes: Federal, State and Territory Governments have laws that prescribe the minimum conditions of employment that apply to paid staff.

Statutory agreements: Statutory agreements are the product of negotiations between an organisation and a group of employees or a union(s) that are subsequently registered by an industrial tribunal.

Workplace diversity: It encompasses the various qualities, characteristics and experiences that distinguish one worker from another.

7.9 Review Questions

1. Describe Human Resource Management.
2. Discuss about issues in Human Resource Retail.
3. Explain the designing structure for a retail firm.
4. Discuss the legal issues in Human Resource.
5. Discuss about retail organization structure.

6. Discuss the ethical issues facing HR.
7. Explain the managing diversity.
8. Discuss about statutory agreements.
9. What are the considerations for organizational design?

Answers: Self Assessment

1. Objectives
2. Auditing
3. Retail
4. Company
5. Global
6. True
7. True
8. False
9. False
10. True
11. Organizational
12. Human Resources
13. Extremely
14. Workplace
15. Employee Safety

7.10 Further Readings

Books

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

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http://smallbusiness.chron.com/major-problems-retail-industry-17471.html

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Unit 8: Human Resource Management in Retail

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Objectives

After studying this unit, you will be able to:

- Describe the significance of human resource management in retail
- Identify different areas of retailing where human resources play a critical role
- Explain the meaning and application of various HR related terminologies

Introduction

Managing employees of an organisation was earlier termed as personnel management. However over a period of time with the growth in consciousness amongst the employer community, employs but the status of a vital resource. Thus this was termed as human resource management. Humans found a vital resource for any business. As an old adage that business always runs by three M's men, money and material. Of late with the growth in the British and hazardous level of awareness and aspiration human resource management has become one of the most challenging frontiers of business management.

8.1 Human Resource Management in Retailing

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

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

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

8.1.1 Strategic Objective of Human Resource Management in Retail

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

8.1.2 Factors Influencing Designing of Organisational Structure

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

1. ***Scope of Operations:*** With such difference in volume of transactions the job requirements are also different. Manpower planning accordingly changes. For larger chains it's essential that the manpower is well qualified to handle such large scale operations.
2. ***Nature of Merchandise:*** It is very important constituent of the human resource planning process. The type of merchandise a store deals with has direct implications on the type of skill sets needed.

   For instance a retailer selling ready made clothes will need people who are proficient in understanding customer's clothing needs and offer the best possible alternatives. However in a leather shoes and leather accessories outlet such persons will be needed who have at least preliminary knowledge about leather especially footwear.
3. ***Type of Organisation:*** It depends upon the organisational structure, requirement for human resource changes. A retail organisation can have a host of departments like Sourcing, Marketing, Accounts Warehousing on a functional basis. It can also have divisions based on various products it deals with. For example The Giant at Hyderabad not only deals grocery items but also other categories like vegetables, fruits as well as casual wear and

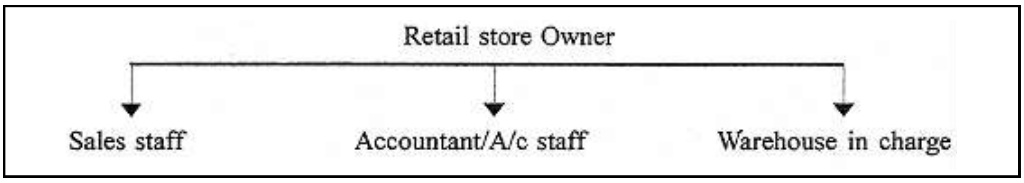
utensils to name a few. Thus they have different centres for sourcing their different products and also warehousing such varied products have specific requirements for manpower.

8.2 Organisation Structure in Indian Retail Scenario

India is dominated by a large number of small and independent retailers.

The best example and perhaps the oldest one is our neighborhood Panwala (beetle leaf shop). There can be a host of other examples such as the neighborhood grocery shop, furniture shop, gift shop, sweetmeat shop and others. These retail outlets are owned and managed by an individual or family.

Such retail stores have typically the following organisational structure:



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

8.3 Human Resource Aspects in Retailing

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

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

Self Assessment

Fill in the blanks:

1. Tasks are to be grouped into different ....
2. Retail .... can be based on function or products.
3. Small stores usually employ professionals on a .... basis.
4. While recruiting staff for retail stores, one must be clear about the candidate's individual .... and ....
5. The first step in effective .... in retail is to look into the organization of the store.

8.4 Human Resource Functions in Retailing

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

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

1. Job analysis and job description.
2. Training and development
3. Compensation and benefits
4. Labour relations

Job Analysis and Job Description

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

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

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

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

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

Whenever we are fixing standards we must indicate the level of proficiency required to meet the quality and quantity expectations. This in turn helps us to identify as to what can be the training needs for a new employee or an existing employee. At the same time it guides the human resource management department in giving reasonably logical feedbacks to the employees.

Training and Development

New developments are always taking place in the retail scenario. With the growth in retail the consumers are maturing by the passing of everyday. In India, whatever you experienced as a customer 10 years back is very different now. Retailing is the most dynamic field of business management. With such changes in the field employees of any retail store ought to learn and train themselves to meet the new challenges. This is one of the most important profiles of any HR department. Training and development can take place in various ways. An organisation may like to give on-the-job training to the fresh incumbent whereas, the oldies may be sent for some advanced training to back up the vast experience which they already have.

Compensation and Benefits

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

Labour Relations

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

8.5 Tasks Performed in a Retail Firm

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

1. Strategic Management
2. Merchandising Management
3. Store Management
4. Administrative Management

8.5.1 Strategic Management

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

1. Target market
2. Different retail formats catering the target market
3. Present buying trends and preferences
4. Various tasks to be performed within the organisation

5. Accordingly designing an organisational structure
6. Site selection, location analysis, layout details
7. Design promotional strategy

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

8.5.2 Merchandising Management

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

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

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

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

These processes need seasoned personnel with years of experience. Here the need is for an experienced person rather than high qualification.

Did u know? An important aspect of strategic management is anticipating what will happen in the years ahead.

Finally the most critical task in merchandising is pricing the merchandise. A retailer has to have complete information about existing price ranges in the market. In the present day competition is so intense that a small error in the pricing could lead to loss of sale as well as long term reputation of the firm.

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

8.5.3 Store Management

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

1. Store facilities
2. Layout and Display
3. Selling of merchandise
4. Customer grievances
5. Complementary services like gift wrapping home delivery
6. Prevent shoplifting and inventory shrinking
7. Receive physical inventory and intimating for the procurement of the same.
8. Merchandise repackaging/alteration

8.5.4 Administrative Management

To execute all these tasks one needs to:

1. Conduct manpower planning
2. Prepare manpower requirement
3. Recruit and hire store personnel
4. Train them
5. Plan work schedules
6. Motivate people to perform
7. Evaluate individual performances

8.6 Long-term and Short-term HR Planning

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

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

Caution Lack of HR planning and evaluation along the way can lead to a series of counter productive effects such as unintended turnover.

Note Recruiting errors caused by the rush to fill urgent vacancies can be avoided by taking a proactive and planned approach.

Self Assessment

Fill in the blanks:

6. The first step in task analysis is ....
7. .... states as to what are the exact requirements of a particular job.
8. Strategic management is completely under the domain of .... management.
9. To make strategies for special occasions like festivals, the store has to do continuous .... term planning.
10. A .... may have to adjust his prices based on the market feedback.

8.7 Part Time Employment

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

8.8 Other Important Aspects of Human Resources

Following are significant with respect to human resources:

8.8.1 Motivation

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

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

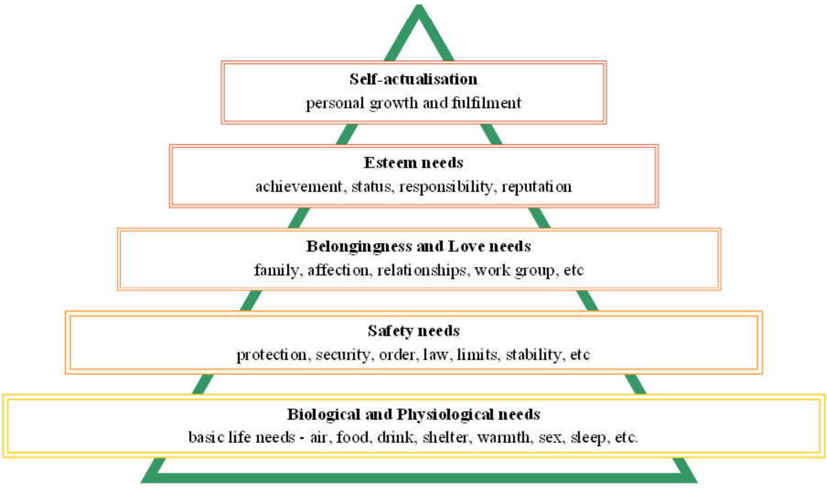
1. Abraham Maslow's Hierarchy of Needs Model
2. Herzberg's two factor theory of motivation
3. McGregor's theory X and Theory Y

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

Did u know? Abraham Maslow is well renowned for proposing the Hierarchy of Needs Theory in 1943. This theory is a classical depiction of human motivation.

Abraham Maslow's Hierarchy of Needs Model

Figure 8.1 Maslow's Hierarchy of Needs Model


Self-actualisation
personal growth and fulfilment
Esteem needs
achievement, status, responsibility, reputation
Belongingness and Love needs
family, affection, relationships, work group, etc
Safety needs
protection, security, order, law, limits, stability, etc
Biological and Physiological needs
basic life needs - air, food, drink, shelter, warmth, sex, sleep, etc.

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

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

Notes The managers must identify the need level at which the employee is existing and then those needs can be utilized as push for motivation.

Herzberg's two Factor Theory of Motivation

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

McGregor's Theory X and Theory Y

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

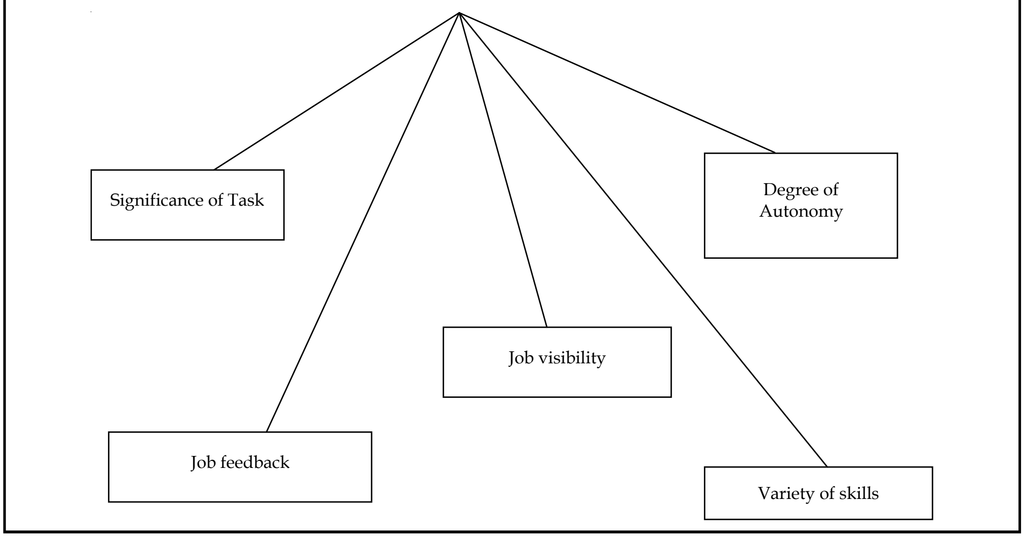
These theories of motivation were propounded based on years of research. However a retail store can adopt any of them or create a hybrid from these depending, upon the ground realities.

Motivating Employees Through Job Enrichment

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

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

Figure 8.2: Modes of Job Enrichment



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

Caution Not all people are driven by the same needs - at any time different people may be motivated by entirely different factors.

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

Every job requires certain skill to perform and execute. If one can enhance the scope of that job whereby, an individual requires additional skills to execute then the job becomes more challenging for the employee. This is due to the fact that over a period of time each job becomes monotonous and mechanical, thus reducing the efficiency. Thus by increasing the variety of skills efficiency can be created.

For a job to become more significant/critical it is necessary that the element of accountability is enhanced. In this regard if we can provide more autonomy to complete the job, enrichment takes place naturally.

8.8.2 Concept of Performance Appraisal

What is Performance?

What does the term performance actually mean? Employees are performing well when they are productive. Productivity implies both concern for effectiveness and efficiency, effectiveness refers to goal accomplishment. However it does not speak of the costs incurred in reaching the goal. That is where efficiency comes in. Efficiency evaluates the ratio of inputs consumed to outputs achieved. Greater the output for a given input, greater is the efficiency. It is not desirable to have objective measures of productivity such as hard data on effectiveness, number of units produced, or percent of crimes solved etc. and hard data on efficiency (average cost per unit or ratio of sales volume to number of calls made etc.).

In addition to productivity as measured in terms of effectiveness and efficiency, performance also includes personnel data such as measures of accidents, turnover, absence, and tardiness. That is a good employee is one who not only performs well in terms of productivity but also minimizes problems for the organisation by being to work on time, by not missing days, and by minimizing the number of work-related accidents.

What is Appraisal?

Appraisals are judgments of the characteristics, traits and performance of others. On the basis of these judgments we assess the worth or value of others and identify what is good or bad. In industry performance appraisal is a systematic evaluation of employees by supervisors. Employees also wish to know their position in the organization. Appraisals are essential for making many administrative decisions: selection, training, promotion, transfer, wage and salary administration etc. Besides they aid in personnel research.

Performance Appraisal thus is a systematic and objective way of judging the relative worth of ability of an employee in performing his task. Performance appraisal helps to identify those who are performing their assigned tasks well and those who are not and the reasons for such performance.

Task Visit any one retail store in your vicinity. Interview the people working there. Find out their issues, and how they are managed.

Self Assessment

State whether the following statements are true or false:

11. Every employee needs the same amount and level of motivation.
12. As per Maslow, individuals move to upper level needs only when his lower level needs are satisfied.
13. Theory Y lays emphasis on negative motivation.
14. Productivity implies both concern for effectiveness and efficiency.
15. Appraisals are judgments of the characteristics, traits and performance of others.

Case Study

Implementing a Comprehensive Performance Appraisal System for India's Leading Retail Chain

About the Customer

The customer is a leading retail chain in India with outlets in all the states and clients across USA, Europe and Japan. A large conglomerate with interests in various ventures, the company pioneered the concept of customer-oriented retail stores in the country. Over the years, it has successfully promoted a number of brands, products and events using innovative tactics. The company had a handful of stores for the first 5 years of its operations; today it is India's largest retail chain with a distinct brand identity that appeals to the Indian youth.

Customer Challenges

When the customer conducted an internal Employee Satisfaction Survey, the results indicated that employees were highly dissatisfied with the performance appraisal system. The appraisal and goal sheets were manual, resulting in a huge drain on employee resources in terms of time and effort. Additionally, there was no system to post employee KRAs (Key Result Areas). Employees wanted the company to maintain rosters of employee KRAs, with a flexible KRA setting process that allowed for detailed mid-year review and interactions between HR, employees and the respective managers. Thirdly, due to the manual nature of the appraisal process, the company found it difficult to generate MIS reports. Finally, there was a strong need for an online central repository of employee data. Employee dissatisfaction with these elements was strong and was reflected in rising attrition rate, decreasing employee morale and loss of faith in the company's systems and its ability to manage them. In consideration of these factors, the customer was looking to implement a complete solution for performance management that could be customized as per its needs and mapped to existing processes. This system would have to be implemented within a short time frame.

Saigon Solution

The customer evaluated a couple of products (SAP HR being one of them) before choosing Saigon's EmpXTrack for its comprehensive and flexible features that were available at a reasonable cost. EmpXtrack was faster to implement and offered a user-friendly, web-based interface that could be accessed anytime, anywhere. It had ready-to-use and yet,

Contd....

Notes

customizable, templates in every module. The product offered a wide variety of options, being available in five different editions, with each edition offering a different set of HR modules. Each edition, in turn, comprised different options based on the number of features available. This variety made EmpXtrack easily configurable and customizable for the customer's needs. Finally, it was cost-effective, offering a flexible pricing model and low front-end cost. The customer chose to implement two modules of EmpXtrack that fit its requirements: the Goal Setting System and the Appraisal System. The solution was required for 500 users and was to be implemented within one and a half months. To meet the stringent implementation deadline, all the stakeholders from Saigun worked in parallel with each other, effectively handling both the qualitative and quantitative aspects. Both modules were deployed smoothly though there were challenges in collecting the customer's data. This was resolved through constant communication with the stakeholder at the customer site, with Saigun team working relentlessly to collect the customer data till all the requisite information was collected in the format that it was needed in.

Results

This engagement was completed within the expected timelines. With the automation of HR processes, the organization and functioning of HR systems have become smoother and timeline-driven, resulting in a huge saving on time, efforts and resources. The solution allows the company to generate any kind of MIS report demanded by the management, and this ready availability of data has had a positive impact on non-HR processes as well. Most importantly, with the Goal and Appraisal Sheet being readily available to all employees and managers, employee satisfaction has increased and employees' faith restored in the company's capability to meet their expectations. The HR team in charge of the project on the customer side has won kudos for completing this engagement within such a short timeframe. Saigon's product and flawless implementation has resulted in complete customer satisfaction, with the customer opting for three more modules from EmpXtrack – HRIS (Human Resources Information Systems), Employee Self Services and Payroll. This will be a bigger engagement covering 6000 employees.

"The Saigun team worked within a tight schedule to meet our appraisal cycle requirements. EmpXtrack is easy to use and offered some comprehensive features that were customized to meet our specific requirements. We found the Saigun team very proactive and quick to help during a crucial implementation phase where they provided us with 24/7 support." – HR Manager

Questions:

1. What are the constraints faced by the manual automation system?
2. Describe the need for automation of the procedures.

Source: http://www.empxtrack.com/resources/case-studies/implementing-a-comprehensive-performance-appraisal-system-for-India-leading-retail-chain/

8.9 Summary

- Human resource is the pivot around which the complete retailing industry rotates. Being a typical service based industry human resources play a critical role.
- There are various factors which influence human resource management aspects in retail. These include scope of operations, nature of merchandise and type of organisation.
- Human resource requirements vary for large retail stores vis-à-vis small retail stores. Human resource needs in retailing also vary as per the tasks needed to be accomplished.
- Tasks can be broadly divided into strategic, merchandising, group management and administrative/legal.

- Performance appraisal is concerned with setting objectives for individuals, monitoring progress towards these objectives on a regular basis in our atmosphere of trust and cooperation between the appraiser and the appraisee.

8.10 Keywords

Human Resource: He is a person or employee who staffs and operates a function within an organisation.

Job Analysis: It refers to various methodologies for analyzing the requirements of a job.

Job Design: It is the process of putting together various elements to form a job.

Motivation: Internal and external factors that stimulate desire and energy in people to be continually interested in and committed to a job, role, or subject.

Performance Appraisal: It is the process of obtaining, analyzing and recording information about the relative worth of an employee.

Task Analysis: Systematic identification of the fundamental elements of a job, and examination of knowledge and skills required for the job's performance.

Training: It is a learning process that involves the acquisition of knowledge, sharpening of skills, concepts and rules.

8.11 Review Questions

1. Explain how you will assess human resource requirements of a retail organisation?
2. Explain the relevance of organisational charts in manpower planning.
3. Explain the significance of orientation programme. Should each employee in a retail organisation undergo the same orientation programme?
4. What do you mean by motivation? Discuss motivational theories.
5. Discuss the Maslow hierarchy theory in detail.
6. Elaborate the concept of performance appraisal.
7. Differentiate between two theories namely; Theory X and Theory Y.
8. What are the modes of job enrichment?
9. Discuss the concept of motivation.
10. Discuss various issues and concern relating to retail.
11. "In today's era it is difficult to gain an edge through unique product offerings, since today's customers has easy access to a wide selection of goods." Discuss.
12. Discuss the process of organising a retail firm.
13. Explain how is organization structure is being used by small independents in retail?
14. Being a HR manager in a retaining company, how will you motivate your subordinates?
15. Differentiate between centralization and decentralization concept in retail giving a suitable example from the industry.

Answers: Self Assessment

1. Jobs
2. Organisation
3. Contract/job rate
4. Goals, temperament
5. Human Resource Management
6. Task identification
7. Job description
8. Top
9. Short
10. retailer
11. False
12. True
13. False
14. True
15. True

8.12 Further Readings

Books

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Unit 9: Merchandise Management

Notes

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Objectives

After studying this unit, you will be able to:

- Define merchandise and merchandising
- Discuss methods of merchandise presentation
- State the assortment planning process
- Explain the concept of inventory
- Identify the pricing objectives ad factors that affect pricing
- State the concept of price sensitivity
- Discuss various pricing strategies
- Explain the concept of psychological pricing and markup and markdown strategies

Introduction

The efficiency of a retail store is based on the retailer's ability to provide the right goods of good quality to the consumer, in the right quantity, at the right place and at the right time. The entire process of retailing depends on efficient inventory management. In this unit, you will learn to plan merchandise and merchandise budget.

In the large retail store, we find a dizzying array of goods to clothe our bodies, decorate our homes and entertain our families. All of this merchandise comes in a variety of sizes, colors, makes and models. Bringing it all together requires the successful coordination of numerous individuals and divisions, including buyers, warehouse employees, financial staff, store operations, etc.

Yet, merchandising takes top priority. It doesn't matter how efficiently the other departments are operating. If merchandising is not firing on all cylinders, the company merchandising is not firing on all cylinders, the company cannot succeed.

The merchandise management process allows the retail buyer to forecast with some degree of accuracy what to purchase and when to have it delivered. This will greatly assist the company in attaining its sales and gross margin goals. Buyers must rely heavily on historical sales data, coupled with personal experience and their own intuition about market trends.

9.1 Merchandise: Meaning

Merchandise refers to the goods bought and sold in business. Merchandising refers to the activities aimed at quick retail sale of goods using bundling, display techniques, free samples, on-the-spot demonstration, pricing, shelf talkers, special offers, and other point-of-sale methods. According to American Marketing Association, merchandising encompasses "planning involved in marketing the right merchandise or service at the right place, at the right time, in the right quantities, and at the right price."

9.2 Process of Merchandise Planning

The foundation of this planning process is the six month merchandise plan.

9.2.1 Define Your Merchandise Policy

Every retail organization must have a vision in order to provide it's buyers with some insight into the following business components:

1. Demographics of current and potential customers.
2. Store's image.
3. Merchandise quality levels.
4. Price point policy.
5. Marketing approach.
6. Customer service levels.
7. Desired profit margins.

This will allow you to develop a clear merchandise policy that outlines buying goals and objectives.

Communicating this policy effectively will not only provide direction, but should also drive all decision making throughout the merchandise planning process.

9.2.2 Gather Historical Information

In building your six month plan, the objective is to prepare a month-by-month total dollar-purchasing schedule for the company. Then, repeat this process for the next level of detail (i.e. the departmental level). Depending on the sophistication of company information systems, each department can then be broken down into smaller segment "classes", for which a similar sales plan is prepared.

The first step in preparing these plans is to pull the sales information for the same period last year. Not only should we gather actual sales numbers, but also statistics on returns, markdowns and any inventory carry-over. Unless your store is computerized, detail of this nature will not always be available. However, even a manual analysis of total merchandise purchases will provide you with an acceptable level of data, which is far better than having no information at all.

> *Caution* One should not end at actual sales data but should also analyse the data on returns, markdowns and any inventory carryover.

9.2.3 Perform Qualitative Analysis

Most professionals will agree that the buying process is 90% analytical and 10% intuitive. In other words, you must do your homework to achieve any level of success. But your efforts will be rewarded. As the most critical aspect of a successful operation, buying/merchandise management is what retail is all about.

"Qualitative Analysis" refers to "identifying the proper components in a mixture". In this case, the mixture is the merchandise plan and the components that affect this plan are as follows:

1. ***Customer profile analysis***
    (a) Who are our best customers, and what are their buying behaviors and attitudes?
    (b) Who do we want our customers to be?
    (c) Who are our secondary customers, and what should we be buying for them?

    Winning specialty store concepts focus on one "individual" and build their merchandise mix to please this specific shopper. Learn right away that you can't be everything to everybody.

2. ***Department analysis**:* To effectively forecast sales and purchase the right product, you need a further breakdown of your store's major departments. For example, a typical family shoe store may have the following departments: men's footwear, women's footwear, children's footwear and accessories. The men's department may be made up of the following subcategories or "classes": dress shoes, sport shoes, boots and slippers.

    To plan at the "class" level, you need sales and inventory data at the "class" level.

3. ***Key Department Trend:*** The professional buyer is always looking for trends in his market. For example, what is happening in men's footwear? Maybe Western boots are growing in popularity, brown dress shoes have been declining for the last two seasons and black sport shoes are hot with the youth market. Do you always run out of large sizes in slippers weeks before Xmas?

    Trend information is available from a number of sources, including trade publications, merchandise suppliers, the competition, other stores in the U.S. and Europe, and your own experience.

4. ***Major Vendor Analysis:*** "Information is power." Even a minor analysis of the performance of your major vendors can identify significant buying issues.

Example: In the case of the family shoe store illustration, a closer look reveals that our number one supplier last season did not do us any favours. Although they shipped 98% of what we booked, further analysis indicates late deliveries coupled with styling and fitting problems. This resulted in a poor in-season sell through, creating the need for heavy markdowns. Due to poor supplier performance, we ended up with a gross margin of 10% below the store average.

As you can see, this type of vendor analysis is essential in planning your merchandise strategy.

1. ***Advertising Review:*** Increased traffic flow often results in higher sales. To this end, advertising and promotions are used to improve traffic levels. The buying and advertising departments must work closely together to ensure the company's investments in this area result in strong performance.

    A promotional calendar outlining event dates, media buys and budgets should be developed and taken into consideration when the merchandise planning process takes place. Buyers may have to coordinate product deliveries with promotions, or vice versa. A successful promotion last year may be hard to equal this season, or, by contrast, a poor promotion may require a higher forecast for this season.

2. ***Visual Presentation Analysis:*** People usually respond best to visual stimuli, so product presentation is a major driver of sales. For this reason, another segment of the buyer's seasonal written report describes their thoughts about visual merchandising for the products. This includes the following:
    (a) Are any special fixtures required?
    (b) Where should the product be displayed?
    (c) What type of signage is necessary?

Visual merchandisers work very closely with the buying departments in most chains. Information concerning delivery dates, promotions and product quantities may affect decisions about what to feature in store windows and key display areas. The "visual people" will also handle any special in-store signage that will accompany the product.

Notes Visual merchandising is everything a customer observes. It includes the exterior and interior elements of a store, which creates a positive image and seeks the attention of the customer and in the ultimate leads to a sale.

9.3 The Assortment Planning

In Assortment Planning we use store grades as a way to reduce the number of decisions we have to make. If we had to plan every store individually we would end up repeating similar assortments many times. Planning at the store grade level allows us to be most effective as a result of our efforts.

What measures should we use to create the grades? Retailers commonly use sales value as the basis for store grading. This allows them to group together similarly performing stores, on the basis that they should have similar ranges assorted to them. As they become more sophisticated many retailers begin to incorporate space into the equation. This often results in a two tier grade system with space sub grades within each sales grade. Superficially, this would appear to be a reasonable approach, and it generally does provide more efficient planning that not using grading at all. However, it places its emphasis on the wrong element - sales.

When we are making decisions about assortments we are primarily deciding which items will go to which stores in which periods. The first question that we need to ask ourselves is how many items we should be sending to each store or store grade. The factor that limits the number of items is not primarily sales velocity (derived from sales value), but space available for display. Space is a limiting factor in bricks & mortar stores in the same way as production capacity is in manufacturing. If we are going to send similar ranges to groups of stores it makes far more sense to group these by space available for display than by sales value. Of course, this assumes that you have accurate records on space at the product level you wish to grade by, and that you have systems in place to keep these records accurate and up to date. But what about sales? Well, we can allow the replenishment systems to pick up on rates of sale and to refill accordingly. We are not ignoring sales, we are merely saying that there are more relevant measures that we can use for grouping stores for assortment planning.

Of course there may be instances where you have more space in a store than is warranted by the sales performance. This is not a desirable outcome, but is one which does exist from time to time. Where this is the case, you may consider reducing the density of assortment. If this widespread you may want to consider subgrading by ales within space.

Once we have decided which measures to use for grading, we also need to decide at what level we wish to grade. There are 4 factors that will influence our decisions here:

1. The availability of data for the selected measure
2. The availability of a system that will calculate the grades at the selected level
3. The availability of a range & assortment planning system that can use the grades at the selected level
4. The ability of our transactional systems to execute plans based on the selected level

It is common for retailers to grade at a department level, but as data becomes easier to access and as planning and transactional systems become more powerful, we are seeing more and more people dropping the level down to category.

What's So Difficult About Planning Assortments?

With Assortment Planning, the planning exercise is fast, intuitive and efficient. Without automated planning tools, however, doing the entire job manually would inundate your staff with these tasks:

1. Manage the end-to-end process of building, managing and planning assortments for new and existing products (and their variations)
2. Keep up with assortment hierarchies, including start and end dates and unlimited assortment information
3. Track attribute mix versus target
4. Analyze best sellers from previous or similar assortments
5. Plan unique assortments to accommodate each location's specific situation
6. Plan placeholder and proxy items with like history
7. Plan and track items using multiple measures and versions and reconcile back to financial goals
8. Plan by average store, cluster or store in your retail channel
9. Plan by campaign, book or media drop for your direct channel

9.4 Methods of Merchandise Procurement

Merchandise displays are special presentations of a store's products or services to the buying public. The nature of these displays may range somewhat from industry to industry, but all merchandise displays are predicated on basic principles designed to increase product purchases. Indeed, merchandise displays are an integral element of the overall merchandising concept, which seeks to promote product sales by coordinating marketing, advertising, and sales strategies.

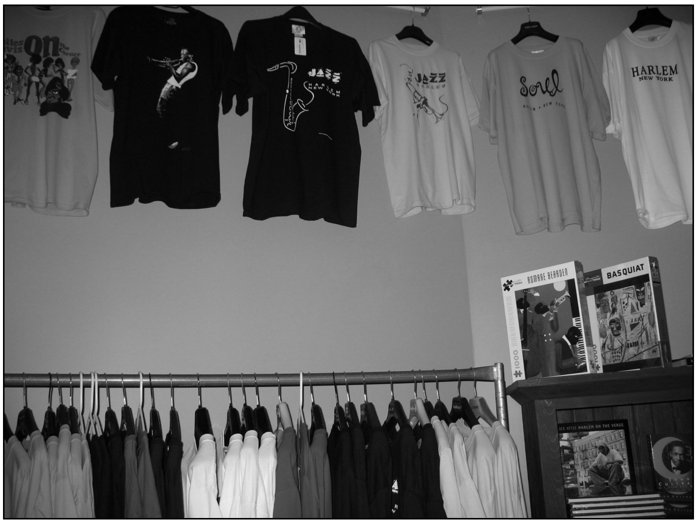
Many business consultants believe that small business owners are among the leaders in innovative merchandise display strategies. W. Rae Cowan noted in *Chain Store Age Executive,* for example, that "in many instances, smaller specialty chains are leading the way in store ambience supporting their overall marketing strategy in a broad range of categories from fashion through hardware and house wares and building supplies areas. By their very nature, specialty stores depend on their fixturing to generate a differentiation or niche in the marketplace. And being physically smaller in some cases allows for faster response to market trends and conditions…. Successful retailers today are using their fixturing to productively dispense their merchandise and communicate an appropriate environment on the retail floor."

Merchandise displays generally take one of several basic forms:

1. ***Storefront Window Displays:*** These typically open on to a street or shopping mall walk or courtyard and are intended to attract passerby that might not otherwise enter the store.
2. ***Showcase Displays:*** These typically feature items that (1) are deemed to be too valuable for display in storefront set-ups, or (2) are niche items of high interest to the business's primary clientele. These display centers are usually located in high traffic areas and typically feature multiple tiers for product display and a sliding door on the clerk's side for access.

3. ***"Found-Space" Displays:*** This term refers to product presentations that utilize small but nonetheless usable areas of the store, such as the tops of product carousels or available wall space.

Figure 9.1: Found Space Display: T-shirts displayed on the wall



Source: bigapplejazz.com

Storefront window displays and "found space" displays are particularly popular tools for publicizing and selling sale items.

9.4.1 Cross Merchandising

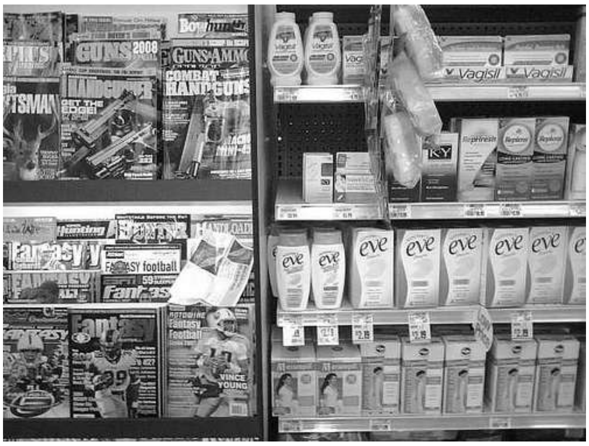
Cross merchandising is simply grouping related products together. There are a few methods that can be used to accomplish this technique in an online setting. Let's take a look at the possibilities.

1. Create gift baskets or sets that include multiple related items, such as a skincare basket with a moisturizer, cleanser, toner, and an eye cream. Maybe you sell books. You can create a Reader's Dream set that includes a few bestsellers, a bookmark, and any other related items in your inventory selection. A Writer's Dream set could include a hardbound journal, notebooks for everyday use, stationery with matching envelopes, a selection of note cards, and a nice pen. Whether you sell DVDs, game consoles, fragrances, lingerie, or toys, you can build gift baskets or sets. Customers love sets like these for the holidays. It saves them time and money, because they don't have to shop around for ideas or each piece to make a set. You did the work for them. Dress packages up nicely for the holidays and watch them fly out the door!
2. Group similar items on the same web page. A customer who plans to purchase a game console would be a prime candidate for buying games as well. This approach is similar to the gift basket idea, yet products are sold individually. Present related products near each other to suggestive sell additional merchandise. A build your own set or deal works wonders to increase sales by discounting the sale for each additional item purchased in the same transaction.
3. Another popular method used by many stores, such as Victoria Secret, offers a related product once an item has been added to the customer's cart. For example, when a customer adds a pair of pajamas to their cart, an offer for matching slippers appears – either on the

shopping cart page or through a pop-up. Nowadays, many Internet users block pop-ups, so an ad placed on the actual web page may be a better option.

Cross merchandising is a viable merchandising solution for e-commerce stores. Choose a method that is suited to your unique situation. Grouping merchandise is similar to suggestive selling without the verbal aspect. Customers tend to spend more money when cross merchandise presentation strategies are used.

Figure 9.2: Cross Merchandising in a Retail Store



Source: flickr.com

9.5 Merchandise Presentation

View the merchandise presentation from a customer's perspective. This can be difficult, because of the hard work that one puts into creating the presentation. Consider a few points:

1. Do the merchandise groupings make sense? Are the products related?
2. Does the presentation enable you to view each item? Do you know exactly what each presentation is offering? Does each set include product details?
3. Are the merchandise presentations attractive, logical, and themed?

Use the answers to each of the questions above to determine if your merchandise presentation is both logical and attractive. The presentation should grab your attention and hold it; it should make you want to know more about the products. How well did you do? Don't worry; you can always change you presentations. In fact, change is necessary as product inventory fluctuates, seasons change, and promotional events rotate. Change is great, because it keeps the customer excited about your products.

9.5.1 Successful Merchandise Display

Trudy Ralston and Eric Foster, authors of *How to Display It: A Practical Guide to Professional Merchandise Display,* cited several key components of successful merchandise display that are particularly relevant for small business owners. First, displays should be economical, utilizing only space, materials, and products that are already available. Second, displays should be versatile, able to "fit almost anywhere, exhibit almost any merchandise, and convey almost any message. Finally, displays have to be effective. The ideal display, said Ralston and Foster, "is readily visible to any passerby and [should be arranged so that] there is no time or space lag between when a potential buyer sees the design and when he or she can react to it. [The ideal display] also shows the customer what the product actually looks like, not some flat and intangible picture of it. Few other forms of promotion can give such a vivid presentation of both the merchandise and character of a store."

The effectiveness of these cornerstones of merchandising display strategy can be increased by remembering several other tips as well, including the following:

1. Allocate merchandise display space and expenditures appropriately in recognition of customer demographics. If the bulk of your business's customers are males between the ages of 20 and 40, the bulk of your displays should probably be shaped to catch their interest.
2. Be careful of pursuing merchandise display designs that sacrifice effectiveness for the sake of originality.
3. Make certain that the cleanliness and neatness of the display is maintained.
4. Do not overcrowd a display. Customers tend to pass over messy, busy-looking displays. Instead, Ralston and Foster affirm that a display should feature a single item or point of interest…. Every primary article [in a display] must interact with every other so that they all come together as a group. If they don't it will look as if there is not one design, but several.
5. Combine products that are used together in displays. For example, pairing ski goggles with other outdoor apparel is apt to be more effective than placing it alone or with some other product that is only tangentially related to skiing.
6. Small items should be displayed so that would-be customers can get a good look at them without having to solicit the help of a member of the staff.
7. Pay attention to details when constructing and arranging display backgrounds. For example, Foster and Ralston counsel business owners to "avoid dark backgrounds when customers will be looking through a window, since this makes the glass behave as a giant mirror."
8. Merchandise displays can sometimes be utilized to educate customers. A well-conceived display could, for example, illustrate a product use that may not have occurred to most customers. "In addition to selling actual merchandise, display can be used to introduce a new product, a fashion trend, and a new 'look' or idea," explained Martin Pegler in *Visual Merchandising and Display*. "Display can be used to educate the consumer concerning what the new item is, how it can be worn or used, and how it can be accessorized. The display may also supply pertinent information, the price, and other special features."

All of these considerations need to be weighed when putting together a merchandise display. But ultimately, the final barometer of a display's worthiness is its ability to sell products.

Self Assessment

Fill in the blanks:

1. Buying and .... department should work closely to increase traffic flow into the store.
2. A collection or a group of various items found in a particular retail store is called ....
3. Retailers most commonly use .... as the basis for store grading.
4. Various merchandise display techniques are intended towards increasing ....

5. Premium items like diamond jewelry, perfumes, show pieces etc. are generally put in .... displays.
6. Grouping of similar products together or close to each other, in a retail store, is referred to as ....

9.6 Retail Pricing

Price has always been one of the most important variables in retail buying decision. It is the factor which makes or mars a retail organization. It is also the easiest and quickest element to change. In this unit, you will learn about techniques of pricing of products. You will learn how pricing helps an organization to achieve its objectives. This is particularly significant for new market entrants that need to first establish a brand, and then enjoy increasing profits as the brand gets market acceptability. For a customer, price is the main reason to visit a particular store. In this unit, you will learn about the implications of the pricing decision which a retailer should consider while deciding the pricing for the retail sales.

9.6.1 Objectives of Pricing

Pricing decisions are usually considered a part of the general strategy for achieving a broadly defined goal. While setting the price, the firm may aim at one or more of the following objectives:

1. ***Maximization of profits for the entire product line:*** Firms set a price, which would enhance the sale of the entire product line rather than yield a profit for one product only. In this process it is possible to maximize the profit for the entire product line.
2. ***Promotion of the long-range welfare of the firm can also influence the pricing decision:*** The firm may decide to set a price, which looks unattractive to competitors, and hence, the entry of competitors can be discouraged for a long period of time. In this way the firm can take a decision for the long-term welfare of the firm rather than the short-term profit maximization.
3. ***Adaptation of prices to fit the diverse competitive situations:*** The company may decide to go for different kinds of pricing strategies depending on individual product's product-market situation. The company will try to maximize the profit from a market where it has cash cows and invest in other markets where it has to stay put for long term benefits. It may decide to follow different kinds of product strategy for product portfolio members.
4. ***Flexibility to vary prices in response to changing market condition:*** One cannot decide about prices in isolation, as the firm is only a member of the market. So it has to decide on prices in response to changing economic conditions. The macro economic conditions also influence the pricing decision.
5. ***Stabilization of prices and margins:*** The firm may decide to stabilize the prices and margins for long term goals and price the products in a different way than they would have done with a profit maximization objective.
6. ***Market Penetration:*** The firm may decide in favor of a lower price to penetrate deeper into the market and to stimulate market growth and capture a large market share.
7. ***Market Skimming:*** The firm may decide to charge high initial price to take advantage of the fact that some buyers are willing to pay a much higher price than others as the product is of high value to them. The skimming pricing is followed to cover up the product development cost as early as possible before competitors enter into the market.

Note The price you assign will impact how consumers view your product and whether they will purchase it.

9.6.2 Factors Influencing Pricing

Formulating price policies and setting the price are the most important aspects of managerial decision making. Price is the source of revenue, which the firm seeks to maximize. It is the most important device a firm can use to expand its market share. If the price is set too high, a seller may price himself out. If it is too low, his income may not cover costs, or at best, fall short of what it could have been.

The following are the general considerations for formulating pricing strategy:

Objectives of Business

Pricing is not an end in itself but a means to an end. The fundamental guide to pricing, therefore, is the firm's overall goals. The broadest of these is survival or assured continued existence. On a more specific level, objectives relate to rate of growth, market share, maintenance of control or ownership and finally profit. A pricing policy should never be established without full consideration as to its impact on the other policies and practices of the firm.

The Competitive Environment

An effective solution to the pricing problem requires an understanding of the competitive environment. Under the present competitive conditions, it is more important for the firm to offer the product which best satisfies the wants and desires of the consumers than the one which sells at the lowest possible price. As a result, pricing policy should be governed more by the relative than by the absolute height of prices.

Product and Promotional Policies of the Firm

Pricing is only one aspect of marketing strategy and a firm must consider it together with its product and promotional policies. Thus, before making a price change, the firm must be sure that the price is at fault and not its sales promotion program or the quality of the product or some other element.

Nature of Price Sensitivity

Businessmen often tend to exaggerate the importance of price sensitivity and ignore many identifiable factors at work that tend to minimize its role. The various factors which may generate insensitivity to price changes are variability in consumer behavior, variation in the effectiveness of marketing effort, nature of the product, importance of after sales service, the existence of highly differentiated products which are difficult to compare and multiple dimensions of product quality.

Conflicting Interests Between Manufacturer and Intermediaries

The interests of manufacturers and middlemen (through whom the former often sell) are sometimes in conflict. This is called vertical conflict. For instance, the manufacturer would desire that the middleman should sell his product at a minimum markup, whereas the middleman would like his margin to be large enough to stimulate him to push up the product. The manufacturer may like to control the middleman's prices and even the retail prices; but the middlemen may seek to expand their sales through price-cuts or obtain larger margin than allowed by the suggested prices.

Active Entry of Non-business Groups in Pricing Decisions

The government, acting on behalf of the public, seeks to prevent the abuse of monopolistic power and collusion among businessmen. There is a complex body of regulation and even more confusing series of judicial decisions guiding pricing principles in every country. Very often, the government elects to control certain prices. Collective bargaining and strikes by the labor unions, attempt to raise wages. The entry of the government into the pricing process, in alliance with farmers and labor interests, tends to inject policies in price determination.

9.6.3 Routine Pricing Decision

Pricing in practice is often routinized though its extent may differ from company to company and from product to product. For example, the management may prefer to depend on suggested prices, which is a mechanical formula for pricing decisions. The degree of routinization depends on the following factors:

Number of Pricing Decisions: A firm may have to take thousands of pricing decisions on a wide range of products, none of which provides a substantial proportion of sales. In this case it will find that the costs of separate analyses on each product are too high. It would, therefore, find it economical to adopt relatively mechanical routine for pricing.

Speed in Making a Pricing Decision: Mechanical formulae, such as a predetermined markup on full cost, have the advantage of speed, though flexibility and adaptability to special conditions is lost.

Quality of Available Information: If the data on demand and costs are highly conjectural, the best the firm may be able to do is to rely on some mechanical formula such as cost plus formulation.

Competitive Market: If a firm is selling its product in a highly competitive market, it will have little scope for pricing discretion. This will pave the way for routinized pricing.

> ⚠
> *Caution* Price is the source of revenue, which the firm seeks to maximize. It is the most important device a firm can use to expand its market share. If the price is set too high, a seller may price himself out. If it is too low, his income may not cover costs, or at best, fall short of what it could have been.

9.6.4 Cost Factors in Pricing

Costs have to be taken into consideration like many other important factors. In fact, in the long run, prices must cover costs. If, in the long run, costs are not covered, manufacturers will withdraw from the market and supply will be reduced which, in turn, may lead to higher prices. The point that needs emphasis here is that cost is not the only factor in setting prices. Cost must be regarded only as an indicator of the price, which ought to be set after taking into consideration the demand and the competitive situation. It must be noted, however, that cost at any given time represents a resistant point to lowering of price. Again, costs determine the profit consequences of the various pricing alternatives. Cost calculations also help in determining whether the product whose price is determined by its demand is to be included in the product line or not.

What cost determines is not the price but whether the product in question can be profitably produced or not.

For pricing decisions, relevant costs are those costs that are directly traceable to an individual product. In the long run the aggregate revenues from all products must cover not only direct costs but also contribute towards common costs. Ideally, each product should make significant contribution to common costs; but it is not possible to state any general rule for determining satisfactory or unsatisfactory contribution. If factors of demand and/or competition prevent a firm from setting a price for one of its products that will cover direct costs, there may be no alternative but to discontinue the product.

Did u know? At times, the government sets the price of commodities to protect the public from sudden change in the market.

9.6.5 Demand Factors in Pricing

Where cost factors are internal in nature, demand based factors are external factors and emerge out of marketing factors. The pricing policy of a firm would depend upon the elasticity of demand as well. If the demand is inelastic, it would not be profitable for the firm to reduce its prices. On the other hand, a policy of price increase would prove profitable if the demand is inelastic. Conversely, if the demand is elastic, it is a policy of price reduction rather than a policy of price increase, which would be profitable for a firm to adopt.

Task Prepare a report on Factors affecting Prices: Indian Subcontinent vs. Europe.

9.6.6 Price Sensitivity

We have already discussed the demand factor that affects pricing. Demand is based on the consumption patterns of the consumers.

Sensitivity to price change will vary from consumer to consumer. In a particular situation, the behavior of one individual may not be the same as that of the other, and may not follow the 'law of demand'. In fact, the pricing decision ought to rest on a more incisive rationale than simple elasticity. Some important characteristics of consumer behavior are detailed below:

1. From the point of view of consumers, prices are quantitative and unambiguous, whereas product quality, brand image, customer service, promotion and similar factors are qualitative and ambiguous.
2. Price constitutes a barrier to demand when it is too low just as much as when it is too high. Above a particular price, the product is regarded as too expensive and, below another price, as constituting a risk of not giving adequate value or being perceived as a low quality product. If the price is too low, consumers will tend to think that a product of inferior quality is being offered.
3. Price inevitably enters into the consumer's assessment of quality. There are two reasons for this. First, it needs expert knowledge and appropriate equipment to test the quality or durability of some particular products (to say nothing of the time and cost involved in carrying out a proper test), and second, customers tend to look upon price itself as a reasonably reliable indicator of quality. What is costly is thought to be of a high quality. A higher price is ordinarily taken to be a symbol of extra quality, or extra value or extra prestige.

To conclude, in many cases, price is used by the prospective customer as a clue for sizing up the quality of the product. Thus price-quality association is well established.

1. With an improvement in incomes, the average consumer becomes quality-conscious. An improvement may, therefore, lead to an increase in demand. If this is so, a time may come when a rise in price results in an increase in demand. This extreme situation may arise if price in increasingly affluent societies comes to serve merely as an indicator of quality.
2. Consumers may be persuaded to pay more for heavily advertised goods. Consumers perceive a firm's size, financial power and age as measures of quality. Well-known firms very often assert that by virtue of their reputation they are able to charge 5 to 10 per cent higher than other firms.
3. Whether the price is considered a bargain or not would depend upon the average market price of the item, the gender of the potential consumer, and the value of the item to the purchaser. Price reductions tend to be perceived absolutely rather than relatively. This means that the percentage reduction decreases for the item to be considered a bargain as the usual price increases. If a packet of potato chips is considered a bargain by a reduction of 20 per cent, a bargain electric fan may be only 15 per cent cheaper than the standard price. As regarding the gender, it is noticed that men on an average require a greater reduction in prices to be persuaded to believe in the bargain.

In a comprehensive survey of consumer consciousness, it was revealed that the basic postulate of the demand theory, i.e. the consumer has appropriate knowledge of market prices, is not fundamentally wrong.

9.6.7 Pricing Strategies

Price is a highly sensitive and visible part of retail marketing mix and has a bearing on the retailer's overall profitability. Further, pricing itself is an essential part of marketing mix and has its own place in the strategic decision-making process.

Demand-oriented Pricing

In demand-oriented pricing, prices are based on what customers expect or may be willing to pay. It determines the range of prices affordable to the target market. In this method, retailers not only consider their profit structure but also calculate the price-margin effect that any price will have on sales volume.

Demand-oriented Pricing focuses on the quantities that the consumer would buy at various prices. It largely depends on the preceded value attached to the product by the consumer. An understanding of the target market and the value proposition that they intend to seek is the base to this form of pricing.

Table 9.1 illustrates the working of the demand-oriented pricing method by taking a hypothetical example of Koutons summer launch of T-shirt for teenagers.

Table 9.1: Unit Price, Market Demand and Profits (Amount in ₹)

Market region	Unit price	Market demand (in units)	Total revenue (C1 × C2)	Total cost of unit sold	Total profit (C3 – C4)
1	8	2,00,000	16,00,000	13,00,000	3,00,000
2	10	1,50,000	15,00,000	10,50,000	4,50,000
3	12	1,00,000	12,00,000	8,00,000	4,00,000
4	14	50,000	7,00,000	5,50,000	1,50,000

Source: Levy and Weitz (2006) p. 487

The main advantage of demand-oriented pricing strategy is to set the merchandise price per customer response towards the product offered.

Cost-oriented Pricing

In this form of pricing policy method, a retailer decides a floor price of the merchandise–a minimum price suitable to the organization to achieve its financial goals. A retailer under this method sets the price to cover production cost, operating cost and a predetermined percentage of profit. The percentage varies strikingly among industries, among member outlets and even among merchandise of the same retail firm.

The Markup Criterion

The retailer's markup percentage or cost plus percentage depends on following considerations:

1. Product's traditional markup policy
2. Competition in the market
3. Supplier's guidelines regarding selling price
4. Operating expenses of store
5. Rented or own retail store
6. Inventory turnover
7. Level of customers service offered

Calculation of Markup Percentage

$$\text{Markup percentage} = \frac{\text{Retail selling price} - \text{Merchandise cost (at retail)}}{\text{Retail selling price}}$$

$$\text{Markup percentage} = \frac{\text{Retail selling price} - \text{Merchandise cost (at cost)}}{\text{Merchandise cost}}$$

Example: A food departmental store desires a minimum 30 percent markup at the retail outlet. If a 100 gm butter cake should sell at ₹ 20, what maximum price the store can afford to pay the suppliers?

$$\text{Markup percentage} = \frac{\text{Retail selling price} - \text{Merchandise cost (at cost)}}{\text{Merchandise cost}}$$

$$0.30 = \frac{20 - \text{Merchandise cost}}{20}$$

$$\text{Merchandise cost} = 20 - (0.30 \times 20) = ₹\ 14$$

Determination of initial markup, maintained markup and gross margin: with the emergence various retail formats and enhanced competition, it is not practical for a retailer to sell all the merchandise items at their actual prices. Therefore, retailers compute the initial markup, maintained markup and gross margin during their normal course of business:

1. ***Initial markup:*** It is based on the selling price assigned to the merchandise less the costs of the merchandise sold.

2. ***Maintained markup:*** It is the amount of profit a retailer plans to maintain on a particular sort of merchandise. It is based on the selling price that a retailer intends to get less the cost incurred on goods sold. As maintained markups are concerned with actual prices received, therefore, for a retailer, it is always difficult to estimate in advance.

Initial Markup = Retail selling price initially – Cost of goods sold set for the Merchandise

Where as

Maintained Markup = Actual selling price – Cost of goods sold retailer wants for its merchandise

The point of difference between initial markup and maintained markup is that initial markup percentage depends on planned retail operating expenses, profit, reduction and net sales, whereas maintained markup represents some additional costs from original retail values caused by discounts, shortages, inventory theft, markdowns and added markups. The maintained markup percentage can be viewed.

$$\text{Maintained Markup} = \frac{\text{Retail selling price} - \text{Merchandise cost}}{\text{Percentage}}$$

3. ***Gross margin:*** Gross margin, commonly known as gross profit, is an important performance measure in retailing. It gives the retailer a measure (estimate) of how much profit it is making on merchandise sales without considering the expenses associated with running the store. In other words, gross margin is the difference between Net sales and the Cost of goods sold.

Gross margin (in ₹) = Net sales – Total cost of goods

Competition-oriented Pricing

Under this pricing policy, retailers set the prices of merchandise after considering competitor's price rather than demand or cost considerations. A company following this policy may not react to changes in demand or costs till competitors are forced to alter their merchandise price despite no change in demand and sale. The various competition-oriented pricing alternatives are:

1. ***Competitive pricing below the market rate:*** It means setting the merchandise prices simply to beat the competitor price by charging a price that is below the prevalent market rate. This policy is advisable only when the retailer follows an optimum inventory plan, procure merchandise at the right time and at the right price to gain the benefits of cash payment, trade discount, bulk buying etc.
2. ***Competitive pricing above the market rate:*** This policy allows a retailer to set the merchandise price above the current market rate. This policy seems to be straightforward and simple but must be applied carefully. This policy is suggested to those retailers who have some competitive advantages such as:
    (a) Excellent consumer service
    (b) High level of personal selling, delivery and exchanged facilities
    (c) A stock of well-known brands that are not available to its competitors in the nearby location
    (d) Attractive, huge and modern retail infrastructure to offer merchandise

    This policy is followed under the following circumstances:

(a) When the retailer has no locational advantage.

(b) Its sales force is not competent and has little product knowledge.

(c) Customer services offered are average

(d) It has unimpressive layout and visual merchandising

(e) It manufactures labels or merchandise of its own.

9.7 Retail Pricing Strategies

Generally retailers identify with a specific market type and streamline their efforts in gaining maximum profit. Pricing for certain types of markets mean that entry is reliant not only on the types of merchandise sold, but the price it sells for. There are three price positions:

1. ***Above the market:*** It implies that a retailer can safely sell their merchandise at a price or price higher than his competitors. However, when competitors are located close by, a retailer needs to reply on the perceived quality of their offering to maintain sales.
2. ***At the market:*** This is the most common policy as the retailer lowers risk by selling at the same price as surrounding stores. Here the competition is fierce and this may make the retailer adopt a different approaches. There could be value creation through added benefits like services, or price-cutting like two for one etc.
3. ***Below the market:*** This implies that a retailer is prepared to sell merchandise at less than the average price. This is a popular strategy for discount stores and hyper markets formats.

9.8 Some Key Pricing-related Terms

The various types of pricing are:

1. ***Horizontal pricing:*** This practice involves agreements between manufacturers, wholesales and retailers to set prices. Such agreements usually are illegal under Indian sales laws.
2. ***Vertical Price Fixing:*** A practice where manufacturers or wholesalers seek to control the retail price of their merchandise through some sort of agreements.
3. ***Price Discrimination:*** A pricing practice where different prices are charged from different retailers for the same merchandise and same quality.
4. ***Minimum Price Laws:*** These laws prevent retailers from selling certain items for less than their cost plus a fixed percentage to cover overhead.
5. ***Unit Pricing:*** The objective of such legislation is to let the customers compare the prices of product available in many sizes. For instance, food and grocery stores must express both the total price of an item and its price per unit of measure.
6. ***Item Price Removal:*** A pricing practice in which prices are marked only on shelves or signs and not on individual items.
7. ***Price Advertising:*** These are guidelines pertaining to advertising price reductions, advertising prices in relation to competitor's prices.

Task Make a brief note on pricing strategy adopted by any one popular Indian retailer.

Self Assessment

State whether the following statements are true or false:

7. The level of sensitivity to prices would remain same for each customer of a specific retail brand.
8. Price can have a negative effect on demand, in both cases– when it is too high and too low.
9. The reductions in prices are perceived relatively rather than absolutely.
10. Demand based pricing largely depends on the preceded value attached to the product by the consumer.
11. Initial mark up is based on the selling price assigned to the merchandise plus the costs of the merchandise sold.

Notes Costs and operating prices also need to be considered while establishing the retail price. The pricing strategy adopted by a retailer can be cost-, demand- or competition-oriented.

Task Analyze the EFT & NEFT transactions of a particular bank.

9.9 Psychological Pricing

Psychological pricing is used when prices are set to a certain level where the consumer perceives the price to be fair. The most common method is odd-pricing using figures that end in 5, 7 or 9. It is believed that consumers tend to round down a price of $9.95 to $9, rather than $10.

Ultimately, you must take into consideration the consumer's perception of your price, figuring things like:

1. ***Positioning:*** If you want to be the "low-cost leader", you must be priced lower than your competition. If you want to signal high quality, you should probably be priced higher than most of your competition.

2. ***Popular price points:*** There are certain "price points" (specific prices) at which people become much more willing to buy a certain type of product. For example, "under $100" is a popular price point. "Enough under $20 to be under $20 with sales tax" is another popular price point, because it's "one bill" that people commonly carry. Meals under $5 are still a popular price point, as are entree or snack items under $1 (notice how many fast-food places have a $0.99 "value menu"). Dropping your price to a popular price point might mean a lower margin, but more than enough increase in sales to offset it.

3. ***Fair pricing:*** Sometimes it simply doesn't matter what the value of the product is, even if you don't have any direct competition. There is simply a limit to what consumers perceive as "fair". If it's obvious that your product only cost $20 to manufacture, even if it delivered $10,000 in value, you'd have a hard time charging two or three thousand dollars for it – people would just feel like they were being gouged. A little market testing will help you determine the maximum price consumers will perceive as fair.

9.9.1 Is Psychological Pricing an Effective Strategy?

Price has a psychological value. Buyers will buy a high priced product because they believe that the high price is a good indicator of value. Their perception is not reality based, it is psychologically based therefore buyer behavior is affected by more than the product and price tangibles.

Interestingly, as buyers do more investigation into the product's attributes or the business promotes the product's characteristics more effectively, that product knowledge ('familiarity breeds contempt') enables buyers to make a more rational, versus psychological, buying decision and for buyers, price moves down the value scale.

One use of psychological pricing is in price-ending numbers. Buyers believe that prices ending in uneven, rather than even numbers, (such as, $9.99, $199,999, etc.) are a better deal or a better price than even numbers (e.g. $10 or $200,000). If the products to be priced are to be in a price 'band' (such as on-line auctions, or cars or other sales listings), if the listing price is in the odd range, say $199,000, it will appear in a lower price band than the $200,000 listing and will be viewed as better value. The challenge with this strategy is that products ending in an odd number are also often perceived as being lower in value. Ensure that you chose the right price and the right strategy for your specific product or service.

Another use of psychological pricing is reference price. Reference pricing is when buyers have a psychological response to the price that mirrors the way they view a price's relationship to a specific product. A business could capitalize on reference pricing and position their product amongst high value or luxury items to imply that its product belongs in the same category. Be careful with that positioning strategy, it can backfire if buyers feel that your product doesn't really belong in that category.

For psychological pricing to be an effective price strategy, the product needs to have some characteristics that would appeal to an ego-sensitive buyer. For example, luxury goods are attractive to ego-sensitive buyers. Premium recreational goods, such as boats, are attractive to ego-sensitive buyers. Your strategic planning model must ensure that the pricing strategy selected for your product or service is a best-fit price.

9.10 Mark-Up and Mark-Down Pricing

After deciding the price of merchandise, the retailer's next step is to consider whether there is any need to change some price due to reasons, such as changing demand patterns, pilferage, competition and seasonal shift during normal course of business. Price adjustments include either markdown or additional markups.

Markdown

Mark-down is a most common technique to push retail sales that offers particular merchandise at a price lesser than the merchandise marked price (normal price).

The reasons for markdown include:

1. Overstocking/overbuying
2. Season change
3. Clear-out shopworn/slow-moving merchandise
4. Clear-out old-fashioned/old-trend merchandise
5. Generate customer traffic

Markdown does not always mean that the store is not performing wall, this is a part of doing business and running a retail store efficiently. Sometimes, initially some retailers markup their merchandise high enough so that after reductions and markdown the planned maintained markup is achieved. Thus, a retailer's intentions should not be to reduce markdowns. If markdowns are too less, it may mean that the retailer is probably charging too low for the merchandise, not purchasing in bulk or not having interest in purchasing a particular merchandise.

Types of Markdowns

The various types of markdown of price are:

1. ***Temporary markdown:*** This is a policy of reducing the prices of merchandise for a particular time period due to a particular reason, e.g. markdown because of clearing-out shopworn/substandard merchandise. Once such merchandise is sold, the product will be sold at the normal selling price.
2. ***Permanent markdowns:*** In such markdowns price reduction is made for comparatively longer periods, maybe a few weeks, few months or more. Unlike temporary markdown, where price reduction takes place for a particular cause and price is eventually raised to the original one, permanent markdown is used to replace the old-quality merchandise with the new one. The reasons for permanent markdown are:
    - Merchandise if of perishable nature and will be of no use after some time.
    - Old technology goods are to be replaced with latest versions.
3. ***Seasonal markdowns:*** Under such markdowns, prices are reduced to clear out seasonal retail merchandise. 'Ludhiana woollen sales', for example, in the previous winter season are very common in North Indian states like Haryana, Punjab, Delhi and Western UP etc.

Markup

Unlike markdown where prices are reduced, additional markup is intended to increase the retail price above the original markup due to certain reasons like:

1. When the demand for merchandise offered is exceptionally high.
2. There is a monopoly-like situation.
3. When competitors are not able to meet the consumer's demand.
4. In case private labels are performing well in retail market and have good demand and the retailer likes to have quick returns.

"In today's world of retailing where brands are easily available and competition is becoming tougher, markdowns are increasingly applied by Indian as well as global retailers rather than markups."

Besides markdowns and additional markups, a third price adjustment, employee discount is becoming popular in the retail world. Some retail firms, in order to build public image and employees welfare provide additional benefits to their employees besides normal salary and perks by offering them discounts on merchandise buying or inviting them to buy merchandise before offering it to general public by the way of sales.

Task Conduct a few interviews of people residing in your locality to find out their views on psychological pricing.

Self Assessment

Fill in the blanks:

12. Retailers follow ………………… strategy to cover up initial costs before any competitor enters the frame.
13. Market trends and purchasing power of the buyers are …………… factors that affect pricing decisions.
14. The conflict between manufacturer and middlemen on pricing or any other decision is known as ………………. conflict.
15. …………………..determines the profits that accrue from various pricing approaches.
16. The policy of increasing prices would be profitable if the demand for the product is ………………..

Caselet

Hughes & Hughes Merchandise Management System

The Company: Hughes & Hughes is Ireland's fastest growing, most dynamic book retailer, and the only Irish bookseller to expand into the UK. The company has 12 locations in Ireland, one in London city airport and two at Terminal 5 at Heathrow Airport, employing 260 people. The company has implemented a €600,000 Electronic Point of Sales System (EPOS) Merchandise Management System in line with a change in trading operation where they are moving to a complete central distribution model.

The Objective: "We are moving to a complete central distribution model where everything is bought centrally, delivered centrally and fed to the stores from our warehouse, "explains Tony Mc Entee, Managing Director at Hughes & Hughes. "We want to have a single invoice point, single delivery point, reduced administration and the assurance that buyers need to only make one buying decision. We also needed a system that would report instantly on what is selling along with margin being generated." Hughes & Hughes had previously used a retail system but found that it was not cost effective nor could it expand to keep pace with the company's continued growth and expansion. "We needed a retail solution that was very user friendly with a clearly defined development map," continues Tony. "The chosen retail solution had to benefit the business by providing sophisticated, timely and accurate reporting from the till and delivering an integrated end-to-end solution, ensuring the capacity of the business to react quickly to market conditions."

Contd....

Notes

Quick Facts	Accreditations	Services
Datapac is the leading Irish business technologies provider. • 200 employees in Dublin, Wexford, Cork and Belfast • Turnover of €60 million in 2007 • Over 1,000 customers entrust their IT support to Datapac	Just to name a few: • IBM Business Partner • Microsoft Gold Certified Partner • Microsoft Small Business Specialist • Microsoft Business Solutions Partner • HP Preferred Partner and ASP • Citrix Gold Solution Advisor • VMware Enterprise Partner • Cisco Select Certified Partner • ISO 9001:2000	Datapac offer many services including: • Retail EPOS solutions • IT support and maintenance • Virtualization and storage solutions • Imaging and printing solutions • Infrastructure design and delivery • Converged voice and data networks • Citrix and Access solutions • Security solutions • ERP solutions • Computer and printer consumables

The Solution: Hughes & Hughes selected Microsoft Retail Management System from Datapac because of Microsoft's quality and Datapac's expertise and knowledge of the solution. "We wanted a solution that is SQL server based which will integrate simply with our finance, logistics and other critical systems and is largely an out of box solution," says Tony. Hughes & Hughes can carry as many as 100,000 SKU's so stock control had been extremely difficult and time consuming. As part of the solution, Datapac is implementing 50 IBM Surepos Tills to allow both the customer and sales assistants to see the screen with product details. "The Sure pos tills are touch screen box units which will allow staff to know what is in stock and be able to access the websites to pick up on titles that we don't stock, also allowing them to look for specific customer requests. They can place orders and take deposits against specific customer orders," says Tony. "The solution also gives us a powerful promotions module so that we can run a wide range of promotions with full tracking and reporting facilities. It will also integrate card payment and gift card management directly through the Hughes & Hughes system which will eliminate using handheld pdqs. This eliminates error and certain levels of potential fraud along with improving our efficiencies in reconciling our cash," continues Tony.

Source: http://www.egyankosh.ac.in/bitstream/123456789/39075/1/Unit-4.pdf

Case Study

Bata Rounds off '95 paisa' Price Tag

For decades, it was a price tag that drew instant jokes, sarcastic comments and sometimes even arguments over consumer rights, but ending it all, Bata India has withdrawn its famous 95 paise pricing.

Now Bata chappals, shoes and other footwear are priced sans the 95 paise. Bata prices still stop at '9' (such as ₹ 499), but the two decimal points in the price that made you feel like sheepishly asking the five paise back, are gone.

"I have seen it almost throughout my stint with Bata," a manager of a Bata showroom, who has put in around 40 years with the company, said.

He remembers that Bata sales people would also be curious about the 95 paise tag when they joined the company. They would be later taught at training sessions that it was a strategy to begin sales talk with buyers curious about price like ₹ 299.95.

Contd....

"It would automatically create interest in the product. And from there salesmen can start their talk," he said. The Bata price also had a psychological impact on the prospective buyers as it fell short of an amount that might have looked like a high price.

Also, the price tag was devised to communicate to customers that Bata values even their five paise. "We used to religiously return the five paise in those days when the coin was available," he said.

There is also an unconfirmed theory that Bata, then headquartered in Kolkata, came up with a price of ₹ 124.95 to avoid an entry tax, which was levied on products priced at ₹ 125 and above.

Bata India officials said the company had decided to do away with the most distinctive pricing in the country because the five paise coins have now gone out of circulation.

"Returning the five paise to customers was becoming an issue. There are people who would insist on getting it back," they said.

But the company did try to keep the price going by trying out various things. "We used to offer customers candies, or told them that for every five paise they did not take back, we would put another five paise and donate the amount to Missionaries of Charity. But we realised later that no such thing was working," they said.

Question:

Comment on Bata's earlier '95 paisa' price tag. Are they right in doing away with it? What, do you think, is the reason for doing this?

Source: thehindubusinessline.com

9.11 Summary

- Merchandise displays are special presentations of a store's products or services to the buying public. The nature of these displays may range somewhat from industry to industry, but all merchandise displays are predicated on basic principles designed to increase product purchases.
- In assortment planning we use store grades as a way to reduce the number of decisions we have to make. If we had to plan every store individually we would end up repeating similar assortments many times. Planning at the store grade level allows us to be most effective as a result of our efforts.
- When we are making decisions about assortments we are primarily deciding which items will go to which stores in which periods.
- Pricing objectives are the goals that a retail company wishes to achieve through its pricing policy. Pricing is the factor that makes a customer comfortable to a store.
- Because the retail market consists of competitors, consumers and suppliers, the retailer should have various pricing objectives.
- For an independent retailer, increasing or decreasing prices can be helpful to increase the store's sales but for brands, such price fluctuations can be harmful even to the cost of out of the market.
- In order to develop a pricing policy, retailers should consider several issues like deciding on the target market, the merchandise to sell and geographical factors carefully to sustain their customer base.
- Demand is based on the consumption patterns of the consumers. Sensitivity to price change will vary from consumer to consumer. In a particular situation, the behavior of one individual may not be the same as that of the other, and may not follow the 'law of demand'.

9.12 Keywords

Assortment: A collection containing a variety of sorts of things.

Cross Merchandising: It is the technique in which similar items are grouped together.

Horizontal pricing: This practice involves agreements between manufacturers, wholesales and retailers to set prices. Such agreements usually are illegal under Indian sales laws.

Inventory: A company's merchandise, raw materials, and finished and unfinished products which have not yet been sold.

Mark-down: This is a most common technique to push retail sales that offers particular merchandise at a price lesser than the merchandise marked price (normal price).

Merchandise: Goods bought and sold in business.

Price Discrimination: A pricing practice where different prices are charged from different retailers for the same merchandise and same quality.

Psychological pricing: This is used when prices are set to a certain level where the consumer perceives the price to be fair.

Vertical Price Fixing: A practice where manufacturers or wholesalers seek to control the retail price of their merchandise through some sort of agreements.

9.13 Review Questions

1. What is the significance of proper merchandise presentation? What is cross-merchandising?
2. What do you mean by assortment? Discuss the assortment planning process in brief.
3. What are the objectives of pricing for any company?
4. Explain the cost and demand factors that affect pricing decisions.
5. Discuss the concept of price sensitivity and its relevance for retailers.
6. Contrast the cost based, demand based and competition based pricing strategies.
7. What is psychological pricing? Determine its effectiveness.
8. Discuss various mark-down strategies.
9. Explain the process of Merchandise Planning.
10. Being a merchandiser, highlight your experience when you came up with an idea that benefited a company.
11. Elucidate "The merchandise management process allows the retail buyer to forecast with some degree of accuracy what to purchase and when to have it delivered".
12. A food departmental store desires a minimum 25 percent mark-up at the retail outlet. If a 150 gm butter cake should sell at ₹ 20, what maximum price the store can afford to pay the suppliers?
13. Study various factors influencing price and prepare a brief report on it. Which one is most influencing and which one is least?
14. In assortment planning we use store grades as a way to reduce the number of decisions we have to make. Why?
15. Is there any function of retail strategy other than mentioned in the text?

Answers: Self Assessment

1. Advertising
2. Assortment
3. Sales value
4. Product purchase
5. Showcase
6. Cross merchandise
7. False
8. True
9. False
10. True
11. False
12. Skimming
13. External
14. Vertical
15. Cost
16. Inelastic

9.14 Further Readings

Books

Paul H. Nystrorn, *Retail Store Management,* LaSlle Extension University

Rosemary Varley, *Retail Product Management: Buying and Merchandising,* Routledge, 2006

Bajaj, Tuli and Srivastava, *Retail Management,* Oxford University Press, New Delhi 2005.

Michael Lopez, *Retail Store Planning and Design Manual,* 2/e, National Retail Federation

Online links

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Unit 10: Inventory and Product Availability Levels

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Objectives

After studying this unit, you will be able to:

- Explain about setting inventory and product availability levels
- Establish a control system for managing inventory
- Discuss about allocating merchandise to stores
- Describe about allocating merchandise to stores
- Discuss negotiating with vendors

Introduction

The efficiency of a retail store is based on the retailer's ability to provide the right goods of good quality to the consumer, in the right quantity, at the right place and at the right time. The entire process of retailing depends on efficient inventory management. In this unit, you will learn to plan merchandise and merchandise budget.

In the large retail store, we find a dizzying array of goods to clothe our bodies, decorate our homes and entertain our families. All of this merchandise comes in a variety of sizes, colors, makes and models. Bringing it all together requires the successful coordination of numerous individuals and divisions, including buyers, warehouse employees, financial staff, store operations, etc.

Yet, merchandising takes top priority. It doesn't matter how efficiently the other departments are operating. If merchandising is not firing on all cylinders, the company merchandising is not firing on all cylinders, the company cannot succeed.

The merchandise management process allows the retail buyer to forecast with some degree of accuracy what to purchase and when to have it delivered. This will greatly assist the company in

Notes

attaining its sales and gross margin goals. Buyers must rely heavily on historical sales data, coupled with personal experience and their own intuition about market trends.

10.1 Setting Inventory and Product Availability Levels

Merchandising and manufacturing companies keep an **inventory** of goods held for sale. Management is responsible for determining and maintaining the proper level of goods in inventory. If inventory contains too few items, sales may be missed. If inventory contains too many items, the business pays unnecessary amounts to warehouse, secure, and insure the items, and the company's cash flow becomes one sided-cash flows out to purchase inventory but cash does not flow in from sales.

Companies take **physical inventories** to count how many (or measure how much) of each item the company owns. Inventory is easier to count when sales and deliveries are not occurring, so many companies take inventory when the business is closed.

Taking a physical inventory involves internal control principles. Examples of these internal control principles include the following:

1. ***Segregation of duties:*** Specific items should be counted by employees who do not have custody of the items.
2. ***Proper authorization:*** Managers are responsible for assigning each employee to a specific set of inventory tasks. In addition, employees who help take inventory are responsible for verifying the contents of boxes, barrels, and other containers.
3. ***Adequate documents and records:*** Pre-numbered count sheets are provided to all employees involved in taking inventory. These count sheets provide evidence to support reported inventory levels and, when signed, show exactly who is responsible for the information they include.
4. ***Physical controls:*** Access to inventory should be limited until the physical inventory is completed. If the company plans to ship inventory items during a physical inventory, these items should be placed in a separate area. Similarly, if the company receives inventory items during a physical inventory, these items should be kept in a designated area and counted separately.
5. ***Independent checks on performance:*** After the employees finish counting, a supervisor should verify that all items have been counted and that none have been counted twice. Some companies use a second counter to check the first counter's results.
6. ***Consigned merchandise:*** Consigned merchandise is merchandise sold on behalf of another company or individual, who retains title to it. Although the seller (consignee) of the merchandise displays the items, only the owner (consignor) includes the items in inventory. Therefore, companies that sell goods on consignment must be careful to exclude from inventory those items provided by consignors.
7. ***Goods in transit:*** Goods in transit must be included in either the seller's or the buyer's inventory. When merchandise is shipped **FOB (free on board) shipping point**, the purchaser pays the shipping fees and gains title to the merchandise once it is shipped. Therefore, the merchandise must be included in the purchaser's inventory even if the purchaser has not yet received it. When merchandise is shipped **FOB (free on board) destination**, the seller pays the shipping fees and maintains title until the merchandise reaches the purchaser's place of business. Such merchandise must be included in the seller's inventory until the purchaser receives it. In addition to counting merchandise on hand, therefore, someone must examine the freight terms and shipping and receiving documents on purchases and

sales just before and just after the count takes place to establish a more complete and accurate inventory count.

> *Note* Inventory holding cost is one of the major cost in an organization and as such keeping low inventory level is always a major concern of an organization.

10.2 Establishing a Control System for Managing Inventory

An inventory control system serves three general purposes, according to author Steven Bragg in his book "Inventory Accounting": It must account for the quantity of physical inventory, its value and the proper billing of shipped goods. Bragg described 68 individual procedures and controls.

Automation

Most companies use software-based control systems to automate those 68 functions, wherever possible. Bragg's list of procedures includes both manual and automated procedures. Author Sven Axsater, in his book "Inventory Control," expanded upon those automated functions. As Axsater describes, the three elements of an automated inventory control management system include a forecasting module, which updates demands and evaluates errors; a module for determining reorder points and order quantities (for example, to reorder bicycle helmets if inventory falls below 25); and continuous (or periodic) monitoring of inventory level and outstanding orders.

Managing Stock

Inventory does not just "sit there" on a company's shelves; it costs money to store and maintain, represents potential profits and, in time, becomes obsolete. A company must actively manage its existing inventory.

One procedure is to reject purchases that were not preapproved, such as a shipment that arrives without supporting paperwork. A second is revising safety stock for seasonal items, such as Walmart stocking up on Christmas decorations in late November. A third is managing and sometimes reducing products and options. This is what happens when a company like General Motors takes a model out of production (thus inventory).

Managing off-site inventory—for example, in leased warehouses or by third-party logistics providers—calls for four specific tasks: maintaining access to the off-site inventory; including off-site inventory in total inventory; ensuring that inventory is accounted for in closing procedures (like month-end accounting); and in conducting periodic audits of off-site inventory.

An effective system includes reviewing inventory for obsolete stock. This allows a company to discount or discard that obsolete stock, write it off for tax purposes and better plan future production.

An effective system audits inventory material costs, which compares the theoretical costs with the actual cost of materials. This way, a company can adjust its standard costs or manage its purchasing department and vendors to adjust costs.

Shipping and Billing

Two basic functions of inventory control management, once inventory leaves the shelves, are shipping and billing. Advanced shipping notices notify the customer that an order has shipped and when the customer can expect the shipment. This enables the customer to plan resources, like labor and shelf space. The customer must then be invoiced. In automated invoicing, the control system recognizes a shipment and generates an invoice (usually through email) to the customer.

Did u know? An inventory control system is a set of hardware and software based tools that automate the process of tracking inventory.

Self Assessment

Fill in the blanks:

1. .... and manufacturing companies keep an **inventory** of goods held for sale.
2. .... is responsible for determining and maintaining the proper level of goods in inventory.
3. An effective system .... inventory material costs, which compares the theoretical costs with the actual cost of materials.
4. Advanced .... notices notify the customer that an order has shipped and when the customer can expect the shipment.

10.3 Allocating Merchandise to Stores

Store Allocation and replenishment is a complex activity requiring deep insight into distribution planning and allocation of merchandise to ensure that the right merchandise gets allocated to the right stores in right quantity at the right time. Optimized allocations result in achieving the financial targets and profitability goals set by the retail organization from a strategic standpoint. Poor planning or any deviation from optimized planning will result into lost sales, missed sales targets and the worst that could happen for any retailer - a dissatisfied customer.

Allocation and Replenishment suite provides an optimized methodology to consistently track perpetual inventory and to ensure that the optimum stock is allocated to the stores - considering store fills, forecasted sales across the stores, latest sales trend, seasonality, local demographic considerations and the assortment plans.

The Allocation engine has multiple allocation algorithms with respect to various Allocation strategies. Different allocation strategies are in built as part of location engine - which allocates the stock based on sales performance, store priorities, store clusters as well as several other business criteria options. The Allocation engine is capable of automated allocation based on stock level, shelf stock level, or min/max levels. This feature enables the stock planner to work more effectively on stock allocation and it reduces their work load significantly.

The Allocation engine tightly integrates with the supply chain system - where replenishment orders are linked to allocation which ensures the stock fulfilment ration remain 100% accurate.

Allocating merchandise to store involves three decisions:

1. How much merchandise to allocate to each store

2. What type of merchandise to allocate
3. When to allocate the merchandise to different stores.

Did u know? There are several software solutions available in the market to better allocate merchandise and optimally manage the distribution of inventory across retail outlets.

Purchase Order Management

The purchase order management module generates orders for merchandise to be shipped to the warehouse(s), distribution centers, and for direct delivery to the stores. In certain instances, purchase orders can be generated at store level. These orders details will either be sent to the central system for integration and review, or sent directly to the vendors.

The purchase order management module can maintain or update an "Open to Buy" budget for a range of suppliers for a given season.

This module supports a comprehensive range of reports and inquiries for monitoring the progress of outstanding purchase orders and for reporting outstanding financial purchase order commitment.

Allocation

Allocation is a process for determining the share of each purchase order to be allocated to individual stores. Allocation can be pre or post. Typically, pre-allocation means that allocation quantities are determined at the time the PO is written. It can also mean that allocation quantities are sent, or electronically transmitted, to the vendor prior to shipment of the goods from his warehouse. The goods are then allocated, packed and shipped by individual store location from the vendors warehouse to the retailer. The advantage of pre-allocation is the reduction in handling time required in the retailer's DC. Pre-allocation is important if warehouse cross docking is to be implemented, or if direct to store shipping is to be used.

Post-allocation means that the allocation function is performed by the retailer's distribution center or central warehouse once the goods are received there. Post-allocation is better for certain types of merchandise, or when there might be short deliveries or split deliveries into the warehouse.

Receiving

The goods receiving module captures all goods deliveries, either to the warehouse or to the stores. The deliveries are input against the relevant purchase order.

Where there are discrepancies, the system allows the retailer to raise a request for credit from the vendor.

Most systems have the provision of one or two-step goods receipt processes when transferring inventory between stores or from the warehouse to the store. In the one step process, the transferred stock quantity is assumed to be the same as the received quantity, and there is no need for the receiving store to check the delivery. In the two-step process the receiving store checks the delivery and logs any inventory discrepancies.

Replenishment

Most merchandise management systems provide a replenishment module that generates suggested replenishment quantities. Inventory is reviewed on a fixed time period basis (e.g. every week). In sophisticated solutions, inventory levels are compared to an order point and sales forecasts. This order point reflects the minimum inventory quantity required to maintain an in stock position between deliveries. It is calculated taking into account sales rate, the lead-time (the time between recognition that an order needs to be placed and the time the order arrives in-store) and an element of safety stock to take into account fluctuations in sales and deliveries. Sufficient merchandise quantities are ordered to achieve the sales forecast and maintain safety stock levels.

In less complex solutions, on hand inventory quantity is compared to a manually set minimum or maximum and a replenishment quantity is calculated to bring the stock up to the maximum level.

Caution Allocation of merchandise is a complex activity requiring deep insight into distribution planning and allocation of merchandise to ensure that the right merchandise gets allocated to the right stores in the right quantity at the right time.

10.4 Analyzing Merchandise Management Performance

Measuring the performance of merchandise is necessary in order to gain an understanding of the products which have performed well and which have not performed as per the target. The performance can be as per plan, below the plan or above the plan.

Inventory turnover, which may also be called inventory or merchandise stock turn or just turnover, is a key to merchandise performance. Inventory turnover measures how long inventory is on hand before it is sold. Items that are on hand a short time have a high turnover those that are on hand longer having a low turnover.

Retailers calculate inventory turnover in several ways:

1. Net sales/average inventory at retail
2. Cost of merchandise sold/average inventory at cost
3. Units sold/average units in inventory
4. Net sales = turnover × average inventory at retail.
5. Average inventory at retail = net sales/turnover

Turnover is a key to high performance, which means profits in retailing. However, higher turnover will not indefinitely increase profits, and the lowest profits, and the lowest turnover will not necessarily result in the lowest profits.

Rapid turnover enables the retailer to reduce certain expenses. Lower inventories will obviously require less capital, and thus the retailer's interest expenses will be lower. Also associated with lower inventories will be lower levels of insurance coverage required, lower inventory taxes on year end inventories and lower cost of space to store the inventory. On the other hand, rapid turnover can increase expense. With similar average inventories on hand, the retailer must order more frequently and in smaller quantities, resulting in higher clerical costs, lost quantity discounts and higher transportation rates.

Success in retail can be measured by the amount of profit generated in relation to the working capital invested i.e. the return on investment. Certain costs in any business are fixed or at least are not easily flexed. Shop rents and head office costs fall into this category. Merchandise margins and product mix, however, are variable and their management can either enhance or destroy profitability.

Many retailers use the performance indicators of gross margin % (after markdown) and weeks cover to measure performance. These are very commonly available but used in isolation from each other, they are of limited value. Gross margin % gives us a measure of reactive profitability without taking into account the costs of stockholding investment. Weeks cover tells us how effectively we turned our stock without informing us about relative profitability.

There are three methods of analyzing merchandising performance:

1. ABC analysis
2. Sell through analysis
3. Multiple Attribute method.

ABC Analysis: Pareto (ABC) Analysis (a.k.a 80/20 Rule)

ABC analysis rank orders merchandise by some performance measure to determine which items should never be out of stock, which items should occasionally be allowed to be out of stock and which items should be deleted from the stock selection. An ABC analysis can be done at any level of merchandise classification form SKU to department.

ABC analysis utilizes the 80:20 principles which imply that 80% of the sales come from 20% of the products. The first step in the ABC analysis is to rank order SKU's using one or more criteria. The most important performance measure for this type of analysis is:

Contribution Margin: Net sales – Cost of goods sold – Other variable expenses

The next step is to determine how items with different levels of profit or volume should be treated differently. The buyer may define as A items those that account for 5% of items and represent 70% of sales. B items represent 10% and 20% of sales. C items account for 65% of the SKUs but contribute only 10% of sales and D as those items for which there were no sales in the past season.

Caution It could be confusing trying to connect merchandise management to financial performance.

Sell Through Analysis

A sell through analysis is a comparison between actual and planned sales to determine whether early markdowns are required or whether more merchandise is needed to satisfy demand. There is no rule which can determine when a mark down is necessary. It depends on experience with the merchandise in the past, whether the merchandise is schedule to be featured in advertising or whether the vendor can be reduce the buyers risk by providing markdown, money etc.

If actual sales stay significantly ahead of planned sales, a reorder should be made.

Multiple Attribute Method

This method uses a weighted average score for each vendor. The following steps are followed:

1. Develop a list of issues to consider for decision making, like vendor reputation, service merchandise quality, selling history etc.
2. Give importance weights to each attribute
3. Make judgments about each individuals brand's performance on each issue.

4. Combine the importance and performance scores
5. Add all to arrive at the brand scores.

Task Discuss about Multi-attribute method.

Self Assessment

Fill in the blanks:

5. .... is a process for determining the share of each purchase order to be allocated to individual stores.
6. The goods receiving module captures all goods deliveries, either to the .... or to the stores.
7. Most .... management systems provide a replenishment module that generates suggested replenishment quantities.
8. A sell through analysis is a comparison between actual and .... sales to determine whether early markdowns are required or whether more merchandise is needed to satisfy demand.

10.5 Developing and Sourcing Private Level Merchandise

To differentiate their offerings and build strategic advantages over competitors, most retailers are devoting more resources to the development of exclusive products—whether products that the retailer designs (private labels) or exclusive brands produced for the retailer by national brand manufacturers. For example, Ralph Lauren has developed American Style brand for JC Penney, and Estée Lauder has developed the American Beauty cosmetic line for Kohl's.

Retailers are placing more emphasis on developing their brand images, building strong images for their private-label merchandise, and extending their images to new retail formats. These exclusive brands, as the term implies, are only available from the retailer, and thus customers loyal to these brands can only find them in one store.

Private labelling is the interesting story of a how a segment of products, originally introduced as low-price alternatives to high-priced brands, is gradually evolving a new brand identity in its own right—increasingly deployed to build loyalty to stores that have plenty of brand identity of their own (e.g., Kroger, CVS, Rite-Aid, and many others). Private-label products, often referred to as "store brands," are made by manufacturers for stores but carry the store's rather than the producer's label. Sometimes the manufacturer produces solely for the PL market, distributing the same product with unique labels for different retailers; sometimes the manufacturer has a well-known brand of its own but sells a portion of its production under private label. When all else is equal, e.g., the identical product is sold under an established brand *and* under one or more private labels, the only real difference between the two is that the branded product carries all the costs of brand promotion and the PL product carries no such costs at all. The two products, of course, will have slightly different packaging too, for differentiation. PL products, for this reason, initially emerged as a way of exploiting a cost differential. They are typically sold at prices below that of their brand-bearing counterparts. All manner of variations on this theme exist and have been present. Thus the PL product may be indistinguishable, somewhat inferior, and (of late) even superior to a branded equivalent. Packaging in the past has ranged from deliberately unattractive to deliberately eye-catching, including imitative of the leading brand with which it competes.

Private labelling emerged visibly in the 1980s and, in those days, ranged from versions carrying store labels to so-called "generics" which came in bland, usually white packaging—including canned goods bearing the product identification and labelling, but no brand whatsoever, on white wrappers. The recession of the late 1980s helped to establish this new category. It continued to thrive even as the economy rebounded in the 1990s and proceeded to finish the 20th century with a great spurt of growth.

The situation in the mid-2000s is summed up by *Private Label Buyer* succinctly as follows: "Store brands have evolved from merely the generic low-priced product to a wide selection of items that have a brand identity of their own. Today, a store brand can be a premium, high-quality item that competes with national brands on image. Consumers have changed into value seekers—even those at the higher end of the economic scale consider themselves savvy shoppers looking for the best value." Trade statistics bear out the fact. Store brands slightly outpace the growth of branded products. This is not surprising in that PL products tend to be lower priced; but it testifies at least to the adequacy and possibly to the increasing quality of private-label goods.

Quality is important, but, as Jill Rivkin pointed out, also writing for *Private Label Buyer*, price remains the most important factor. "When asked to rank the private label attributes of price, quality and package design in order of importance," Rivkin wrote, "about 60 percent of primary grocery shoppers surveyed put quality in the top spot. But just moments later, when asked if they would purchase a private label item only if there is a significant price difference between it and the comparable national brand item, 64.7 percent agreed."

Although private labelling is widespread and can be found in most consumer categories (ranging quite widely from plastics sacks on up to lawnmowers), it tends to dominate in the grocery and in the drugs and sundries categories. Major retailers in these categories are most active in exploiting the possibilities of private label by fusing low-price store-branding and store-identity into a promotional approach intended to build store loyalty. Thus in advertising and in issuing coupons, higher discounts are offered for store-branded items in order to attract and to keep the clientele.

PL and Small Business

Producing for the private label market has been a valued strategy by small business in the middling-size category, especially those that have established recognized brands of their own in grocery categories (e.g., preserves, sauces, condiments, etc.). Plant expansions can be rationalized by adding a substantial private-label production run. A certain size is necessary because private label distribution must satisfy a mass market. Distributing privately labeled product to many small stores, each requiring its own unique labeling and packaging—combined with the need for low pricing—makes the approach less than cost-effective.

Some small businesses look for opportunities exclusively to satisfy a large private-label market by producing for it a regional supply of some product the specifications for which are set for all participating manufacturers by the buying retailer.

Private Labels and E-Commerce

A still emerging trend in private labels is the rapid adoption of these brands by firms involved in Internet commerce. "While supermarkets and department stores in the brick-and-mortar world can take years before they venture into private label merchandise, e-tailers—in a development that echoes the rapid emergence of the medium itself—are developing private label programs as they approach the starting gate," Elaine Underwood wrote in *Brandweek.*

According to Underwood, some electronic retailers are attracted by the higher margins typically offered by private-label merchandise. Others see it as a way to offer unique merchandise that helps differentiate them from competitors.

Example: The online toy retailer eToys sold special cabinets and stands for customers to display their collections of toys under their own brand name. Some experts claim that offering private-label merchandise gives substance to online brand names and reminds customers of e-commerce Web sites. Electronic retailers must be careful not to offend big name manufacturers by copying their products and packaging too closely, however, because they lack the leverage in the chain of distribution that is enjoyed by regular retail stores.

Did u know? Manufactured private label products are sold to key retailers for distribution under their store brand names.

10.6 Negotiating with Vendors

When it's time to negotiate, do it fiercely with a walkaway mentality. Fight for better payment plans and credit terms, and encourage the vendor to sweeten the pot with steep discounts, additional services and introductions to potential clients. Basically, request everything you wouldn't want for your own clients.

Never accept first-round bids. Haggle and then haggle some more. Play vendors' bids off one another. If a vendor doesn't give you what you want and you believe you're being absolutely reasonable, walk away and find somebody else.

Remember, a vendor's primary goal is to sell you a product or service, not to make your business a success. Vendors need you more than you need them because without you, they don't make money. You have all of the power. In this one instance, abuse that power to the fullest to get what you want at a price you can afford.

Of course, that's just my opinion. This cut-throat approach might not work in all situations. And there are other things to consider besides price, especially if you already have a long-standing relationship with the vendor.

Scroll through the gallery below for more advice on negotiating with vendors from members of the Young Entrepreneur Council.

Bargaining is an age-old practice that is still common in the marketplace in many countries today. In the United States, most consumers want to avoid the haggle and will simply accept the price on the tag. It is the successful retailer that has learned how to play the game of give and take with their suppliers. Learn how to negotiate with vendors to receive the best pricing and terms on products with these negotiation tips.

1. ***Be Prepared:*** Being prepared and informed is the greatest advantage a retailer can have going into vendor negotiations. Learn as much about the supplier and its products as possible. How do their prices compare to the competition? What level of service do they provide their customers? Vendor negotiation preparation also includes setting goals to determine what you want and what you can live with.
2. ***Always Tell the Truth:*** Deception tactics, such as bluffing or falsification, may do more damage than good in the vendor negotiation process. Lying is not only unethical, but it can be difficult to maintain. While being honest, be careful not to give away your bargaining power. It's not necessary to tell everything you know, but when you do tell... tell the truth.
3. ***Show Your Potential:*** If you are meeting with a potential vendor for the first time, odds are he/she may know nothing about your company. Begin the negotiation with some history about your retail business. Explain any future expansion plans and let the vendor know how doing business with you will help them.

4. ***Ask About Incentives:*** The whole idea behind negotiating with manufacturers and suppliers is to receive the best price, payment terms, advertising allowances and even exclusivity. Start by asking what incentives you qualify for and let the negotiations begin from there. Don't be afraid to ask for what you want.

5. ***Mention the Competition:*** It is okay to mention the vendor's competition in the negotiation process but don't disclose any pricing or other confidential details. There is nothing wrong with letting a supplier know their competitor is in a good position, whether it is real or perceived.

6. ***Find a Fair Compromise:*** Just like the retailer, the vendor must make a profit to stay in business. Vendor relations should be treated as collaboration rather than conquest. As you negotiate a good deal for your retail business, consider the outcome for the supplier.

7. ***Think Long Term:*** Establishing a solid, trustworthy relationship with a supplier can only help your retail business. Vendors, who feel the customer will be loyal, may concede to even more incentives in order to maintain a long-term partnership.

8. ***Take Your Time:*** Never feel pressured to buy from a salesman. If you're not satisfied with the negotiating process, ask for time to think about the offer.

9. ***Get it in Writing:*** As the negotiation process comes to a close, make sure the offer is put to paper. Don't sign any sales contract unless it matches the verbal agreement.

10. ***Practice Makes Perfect:*** Not everyone is a natural negotiator. It takes time to learn when to speak, when to be silent and how to read body language. The more you negotiate and sharpen your skills, the better you'll get.

Self Assessment

State whether the following statements are true or false:

9. Private labelling is the interesting story of a how a segment of products, originally introduced as low-price alternatives to high-priced brands.
10. Analysing is an age-old practice that is still common in the marketplace in many countries today.
11. Producing for the private label market has been a valued strategy by small business in the middling-size category.
12. A still emerging trend in private labels is the rapid adoption of these brands by firms involved in Internet commerce.
13. Store brands have evolved from merely the generic low-priced product to a wide selection of items that have a brand identity of their own.
14. Plant expansions can be rationalized by adding a substantial government-label production run.
15. Establishing a solid, trustworthy relationship with a supplier can only help your wholesale business.

Notes

Case Study

Castle's Department Store

Castle's Department Store, which has an an-nual sales volume of $120 million, is located in Atlanta, Georgia. The climate there usually ranges from mild to hot almost all year long, with a few cold days during the winter months. The average annual temper-ature is an ideal 70 degrees Fahrenheit. These conditions are perfect for most sports, and tennis in particular, which has become the number one sports activity among young professionals in Atlanta.

While much of the area surrounding At-lanta is still agricultural, such big industries as textiles, technology, paper, chemicals, pharmaceuticals, as well as all media-re-lated industries, such as television, radio, and publishing, are becoming a larger part of the area's economy. All in all, the influx of a younger, more professional population and their growing families has been good for Castle's. This change in the demograph-ics of the area has brought a younger, more affluent group of customers to the store and has required that the store's management "think fashion" somewhat differently than its competitors because Castle's has always been known as "the best apparel store in town."

Kate Butler has been Castle's women's sportswear buyer for the past three years. She is very happy at Castle's, is doing a good job, and is well thought of by upper management.

During the annual Atlanta Womenswear market, Kate bought something new for Castle's—an off-white tennis dress with lace details for non-tennis players—really an après tennis outfit. Previously, similar dresses had sold very well in smaller markets and had done especially well at the shops at private country clubs. Kate just knew that this dress would be a hit and so she bought it. When the merchandise arrived, she first called the visual merchandise department and arranged to have a mannequin display placed at the entrance to her department. When the display was in place, she and her assistant finished ticketing the goods and then they arranged a good-sized sample as-sortment on a T-stand next to the display. When Kate looked at the display and the as-sortment, she knew she would have a "hot" seller in no time. She was considering the possibility of advertising the dress, when Janice Reed, the junior dress department buyer, stormed into her office.

As it happened, the location of the dis-play and the T-stand abutted one side of the junior dress department. Janice had practi-cally fallen over the display and new mer-chandise, and after looking it over, strode into Kate's office.

"Hey, Kate, where do you come off sell-ing those off-white dresses in the sportswear department? You're practically flaunting them in my face!" Janice said angrily.

Kate looked at Janice calmly. "If you'll look closely, you'll see that they are not re-ally dresses at all. They are tennis dresses, as their labels clearly state. I bought them from Miss California, one of my key resources."

Janice persisted. "Well, it's bad enough that you're carrying them right next to my department, but they're also priced $10 lower than similar dresses that I'm over-stocked with already!"

"Janice, you know that sportswear prices are generally lower than dress prices," Kate answered. "You know they have a lower cost and sportswear workmanship is not as costly as dresses are. Why don't you just sit down and I'll go get us both a—" Kate abruptly stopped when she saw that Jan ice's face was red with anger. She saw those ten-nis dresses

Contd....

as a potential threat to her de-partment, especially because the numbers of tennis "buffs" were growing steadily and showing no signs of abating.

Accordingly, Janice sought Jessica Cun-ningham, the ready-to-wear merchandise manager, and discussed the full impact of Kate's purchase of the so-called tennis sportswear. Jessica listened carefully, and af-ter Janice finished, she promised to check into the matter at once.

Jessica then called Kate into her office and listened to her side of the story, which included her reasons for buying the dress and the necessity of the display and T-stand.

Jessica is relatively new to Castle's, hav-ing come from New York City, where she had been the dress buyer for a large chain department store. Generally, she is regarded as an astute merchandiser, and she has not been known to play favorites among the buyers under her supervision.

Question:

If you were in Jessica Cunningham's place, what would you do in regard to the sports-wear buyer's purchase of the tennis "dresses" and the dress buyer's objections?

Source: http://www.fairchildbooks.com/ext/resources/instructor-resources/PDF-previews/6000-Sample.pdf

10.7 Summary

- Merchandising and manufacturing companies keep an **inventory** of goods held for sale.
- Management is responsible for determining and maintaining the proper level of goods in inventory.
- Access to inventory should be limited until the physical inventory is completed.
- Consigned merchandise is merchandise sold on behalf of another company or individual, who retains title to it.
- Goods in transit must be included in either the seller's or the buyer's inventory.
- Most companies use software-based control systems to automate those 68 functions, wherever possible.
- An effective system includes reviewing inventory for obsolete stock.
- The allocation engine has multiple allocation algorithms with respect to various allocation strategies.
- The purchase order management module generates orders for merchandise to be shipped to the warehouse.
- Rapid turnover enables the retailer to reduce certain expenses.
- ABC analysis rank orders merchandise by some performance measure to determine which items should never be out of stock.
- Private labelling is the interesting story of a how a segment of products, originally introduced as low-price alternatives to high-priced brands.
- A still emerging trend in private labels is the rapid adoption of these brands by firms involved in Internet commerce.

10.8 Keywords

Advance Shipping: Advanced shipping notices notify the customer that an order has shipped and when the customer can expect the shipment.

Allocation: It is a process for determining the share of each purchase order to be allocated to individual stores. Allocation can be pre or post.

Consigned merchandise*:* Consigned merchandise is merchandise sold on behalf of another company or individual, who retains title to it.

Post-allocation: It means that the allocation function is performed by the retailer's distribution center or central warehouse once the goods are received there.

Purchase Order Management: The purchase order management module generates orders for merchandise to be shipped to the warehouse(s), distribution centers, and for direct delivery to the stores.

10.9 Review Questions

1. Discuss about setting inventory and product availability levels.
2. Explain the establishing of a control system for managing inventory.
3. Discuss about allocating merchandise to stores.
4. Describe the process of analyzing merchandise management performance.
5. Discuss about developing and sourcing private level merchandise.
6. Describe about negotiating with vendors.
7. Explain about "ABC Analysis".
8. Discuss about store allocation and replenishment.
9. Discuss about Shipping and Billing.
10. Describe about the term "Goods in Transit".

Answers: Self Assessment

1. Merchandising
2. Management
3. Audits
4. Shipping
5. Allocation
6. Warehouse
7. Merchandise
8. Planned
9. True

Notes

10. False
11. True
12. True
13. True
14. False
15. False

10.10 Further Readings

Books

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

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

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

Online links

http://www.cliffsnotes.com/study_guide/Determining-Inventory-Levels.topicArticleId-21081,articleId-21065.html

http://salarean.com/attachments/article/282/Inventory.Accounting.pdf

http://www.grmap.com/solution-allocation.php

http://www.planfact.co.uk/the_uses_of_gmroi.htm

Unit 11: Retail Pricing and Communication Mix

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Objectives

After studying this unit, you will be able to:

- Define pricing strategies
- Explain about demand oriented pricing
- Discuss about competition oriented pricing
- Discuss pricing techniques for increasing sales and profits
- Explain about legal and ethical pricing issues
- Discuss about planning the retail communication program
- Explain the methods of communicating with customers.

Introduction

Price has always been one of the most important variables in retail buying decision. It is the factor which makes or mars a retail organization. It is also the easiest and quickest element to change. Pricing helps an organization to achieve its objectives. This is particularly significant for new market entrants that need to first establish a brand, and then enjoy increasing profits as the brand gets market acceptability. For a customer, price is the main reason to visit a particular store. In this unit, you will learn about the implications of the pricing decision which a retailer should consider while deciding the pricing for the retail sales.

11.1 Consideration in Setting Retail Prices

Price setting is a common task for any retail buyer; it is a really massive topic to cover. I just want to point out some key elements to take into consideration when deciding the retail price for your articles.

Every category of products has its specifics. There are many significant factors to take into account, starting with manufacturing cost or buying price, demographics of the consumer-target, promotion or campaign for the product, brand awareness, merchandising, packaging, strategy involved (profit oriented or volume oriented), competition, etc.

There are some situations when, after considering all the objective parameters, you have no choice but just go with your gut for the final price.

Branded products prices are usually suggested or imposed by the vendor. MSRP* (or Manufacturer suggested retail price) or RRP* (Recommended retail price) is the way the vendor is setting (or at least trying to set) the price on the market. Easier said than done.

When it comes to price setting the golden rule is: **The perceived value of the product should be higher or at least the same as the money value indicated on the price tag.**

Second rule, which is originating from the first: **the market is deciding the right price and not the retailer.** So, the key point in any price setting is to study well your target market. With experience price setting comes naturally for the buyer/purchasing manager and this is not typically an issue. Original Equipment Manufacturer (OEM) products are one notable exception, here the retailer decides how and where to position his own brands.

The extremes in price setting are obviously positioning to low your price or to high. In both situations there is a lost opportunity:

1. Lost opportunity to get more profit, by positioning the product lower than the market would actually agree to pay on that product (or, how I like to call it, **"kill the margin"**).
2. Lost opportunity to sell more volumes, by positioning the price above the value perceived by the costumer (in this case you just **"kill the product"**).

In most consumer minds "expensive = exclusive" or "expensive = premium quality". Meanwhile, "inexpensive"= "cheap" in the negative connotation of inferior, poor-quality, second-rate. That's why retailers communicate nowadays more on "affordable", "low-cost" or – this is more politically correct, isn't it? -"reasonably priced". Considering this, price setting is used as an exceptional marketing tool. It is an essential part of the system set up to sell the product. Price position is one of the key-communication elements of many brands and it translates in value and benefits.

If time allows you – knowing that it is essential to have the product in the market at the right time – my advice is to use this simple method: test the price position at a lower scale or without to much advertising. Experiment, get the numbers, analyze them and decide which price positioning suites the best your objectives in sales and profit.

The decided price level can also be sustained by campaigning on the product/brand, adding value via marketing policies. The techniques used to add value will also increase the product cost.

There is an interesting case – an inflexion price point – where even if you "kill" completely the margin the sales will not necessarily increase. It may happen that a too low setting may generate question in the consumer mind, ("if the price is that low, there must be a problem with this product") so due to the negative association price level-quality the sales will not really increase as the price decreases. A low price can drive away customers solely by the reason of correlation like "inexpensive" = "poor quality", or "hidden issues" or ", hmm, something is wrong with this item if it is so cheap"! Didn't you, as a customer, find yourself in similar situation when shopping?

On the other extreme, setting the price higher than the "proper" price position resulted from the market research might increase the sells – people will associate the premium price positioning with premium quality. Higher price position is a standard marketing strategy used by premium and luxury brands; price do not necessary express the manufacturing cost trough their price tag, but other benefits or values of the brand (exclusivity, prestige, social recognition, etc.). This particular strategy has to be used carefully – the balance between getting a better sale via higher price and "killing the product" it is very fragile! Moreover, it is a must that your product appearance, benefits (in other words value perceived) is in alignment with your chosen price point.

One mistake I noticed, especially on new retail businesses or junior buyers/assistant buyers, is when the price is set using no more than a simple mathematical formula. Meaning: I have "x" invoice price on this item, my target markup is 30%, so the final price will be x+30% (example, invoice price is 30 $, then the tag price will be 30$ x 1, 30 = 39 $). Maybe, only maybe the 39 $ is the right shelf price. Remember second rule of price setting? Market is deciding. So before making a simple calculator operation, make the basic minimum research for the price. It is OK to trust your vendor, however do the least confirmation with the market. You may find out that you can make a much better markup than your initial 30% or sometimes that your buying price is wrong, meaning with your targeted 30% markup you are way out of the normal price should be. When the product is already sold by your competitors, you will have your confirmation right away.

If your item is unique, let's say a completely original and new invented device, better to apply the first rule. You may found out either that you can generate an exceptional margin with your product or this might be a flop: the market considers the right price at a level that will not even cover your manufacturing costs.

Did u know? 50% of new products continue to fail, and poor knowledge of what price the market will bear for a new product is a major contributor.

11.2 Pricing Techniques for Increasing Sales and Profits

A competitive strategy is what allows your business to successfully compete against other rivals within the industry. Strategic analysts suggest only three types of competitive strategies exist; namely, (1) Low Cost Producer Strategy, (2) Differentiation Strategy, and (3) Focus or Niche Strategy. Below discusses each type of competitive strategy.

11.2.1 Low Cost Producer Strategy

As you might suspect, a low cost producer strategy is based on producing a product or service for the lowest conceivable cost. Such a strategy provides the business with a cost advantage relative to competitors. The cost advantage resulting from a business employing a low cost producer strategy provides them with two options. (1) the business can "undercut" competitors thus increasing their share of the market. Or (2) they may continue to sell the product or service at a price similar to competitors, thus receiving a higher profit margin.

A low cost producer strategy tends to operate well in industries where consumers are sensitive to prices. In addition, this strategy is generally successful in industries where the consumers can easily switch to another supplier of product or service (i.e. it does not cost the consumer anything to switch companies).

A firm contemplating this strategy must not dramatically sacrifice the quality of the product in an attempt to reduce their production costs. If your product or service lacks the quality demanded by the consumer, it probably won't sell well. If the product is not appealing to the customer, chances are they will seek your competitors. Ways to reduce costs might include:

1. purchase more efficient production equipment
2. purchase other fixed or capital assets to increase efficiency
3. eliminate one or many cost producing activities
4. find less expensive suppliers of raw material/product
5. reduce overtime costs
6. reduce waste of products or raw materials
7. implement and continuing monitor cost cutting measures

Passing your savings onto the consumer, which is one of the options a low cost producer can provide, is usually the most vulnerable strategy a business can employ. It is so easy to match or attack - a new business may spring up tomorrow that has the ability to produce the product or service at even lower costs. Be aware of this when deciding on your competitive strategy.

One final note on the low cost producer strategy. Lets assume for a moment that you are planning to establish a small business, selling home stereos. You decide to underprice all competitors. The first question is "would you use the low cost producer strategy"? The answer is NO - there is no way you could be a low cost producer with the likes of Wal-Mart and K-Mart hanging around. These companies purchase their products in large quantities and receive volume discounts. Therefore, your business probably would not have a cost advantage over these entities. You would have to compete in other ways, such as service, quality, convenience, brand names, and so on. The second question is "can you undercut all other competitors. The answer is YES and if you wanted to, you could give the stereos away for free. Chances are, however, the operation would NOT be open for long.

11.2.2 Differentiation Strategy

The differentiation strategy is used when consumer needs, wants, interests and/or desires are so assorted that a standardized product does not satisfy their appetite. In other words, the differentiation strategy is based on learning what features and attributes are important to the majority of consumers and then incorporating or adding those features and attributes to their product. Such additions make the product or service more important, desirable and valuable to the consumer. The company using a differentiation strategy generally gains a competitive advantage over existing operators within the industry.

Since consumers place more value on differentiated products and services, they are willing to pay a premium or higher price. This last statement brings up two important issues: First: the cost to offer the differentiated feature or attribute must not outweigh the price consumers are willing to pay for the feature and attribute. Second: the higher price charged by the firm for the differentiated feature must not exceed the amount consumers are willing to pay for the "additions" or new feature. Therefore, careful research is required for both considerations.

Let us assume a pizza parlor delivers pizza to its customers with no guarantee of arrival time. Another might promise a 30 minute delivery guarantee within a specific area or the pizza is free. The pizza parlor with the 30 minute delivery promise has differentiated the method of providing service. If consumers value this differentiated feature, then the pizza shop will likely enjoy increased market share, be able to charge a higher price, and/or attract and maintain loyal customers.

Other differentiating examples would include; better training, faster service, warranties, offering extended credit terms, better price, customer service, outstanding technical support, higher quality, cleaner facilities, offering free coffee, friendly and courteous staff, money back guarantees, offer products in different colors, adding one or more features to a product or service, and the list goes on and on.

A computer keyboard manufacturer, for example, may decide to differentiate its keyboard from all other competitors by attaching a wrist support mechanism. If a demand is present and if there is a strong consumer need for the wrist support, retailers are more likely to place the keyboards on their shelves. If customers perceive the product to be more valuable, then a premium price may be charged by all channels.

The risk of differentiating is realized when the customer sees no value in the differentiation. For instance, customers being served by the two pizza shops may see little or no value in the 30 minute delivery guarantee. As a result, they feel the guarantee is not worth paying extra. At the same token, retailers or end customers, targeted by the keyboard manufacturer, may not see the need for a wrist support. Therefore, companies basing their strategy on differentiation, must conduct valuable research to determine if the differentiated feature or attribute is desired by consumers, and if so, what perceived value do they attach to it.

11.2.3 Focus or Niche Strategy

A business employing a focus strategy targets (focuses on) a small segment of the marketplace that is not well served by existing businesses. A focus or niche company produces or supplies the narrow segment with products and services that meet their needs, wants, interests, and desires. The philosophy behind the focus strategy is to serve a narrow group especially well, rather then targeting a wide market and serving them only adequately or inadequately. Do not be confused with the word niche - it simply means a small or narrow segment of the market.

Manufacturing an automobile to accommodate people who are four feet tall is an example of a focus or niche strategy. Such an automobile, however, may not prove profitable since few consumers are four feet tall and own a valid driver's licence. Developing wide shoes for people with extra wide feet or supplying clothing for extremely petite women are examples of focus or niche strategies.

The focus strategy does not necessarily require an alternation in a product or service. For instance, locating an electronics shop in your home town can be an example of a focus or niche strategy, if and only if:

1. Other electronics shops are not present in the area (residents are required to travel an hour for such electronic products or services);
2. The market is not adequately serviced by existing suppliers.

Another example of a niche business would be a video store that rents only "martial art" movies. The business would be different from rival movie rental businesses since it targets only one specific group or segment or the marketplace. In addition, the movie rental store will most likely have a much larger selection of martial art movies, a greater knowledge of martial art movies, and a more specialized approach to serving its customers compared to a full scale movie renting competitor. Also, the martial art rental store may have less inventory, less overhead and lower operating costs compared to other competitors within the movie rental industry.

The focus or niche strategy is often confused with the differentiation strategy. The main difference is that a differentiated product or service interests a broad segment of the marketplace, while a focus or niche product or service appeals only to a narrow or small segment of the marketplace.

Notes

If you wish, you may think of a focus or niche strategy as an extreme case of differentiation, meaning the product is differentiated so much that nobody else wants it, except for a very small segment.

Focus Strategies tend to prove advantageous when each of the following criterion are in place.

1. The cost is too high for existing competitors to serve the niche market.
2. It is difficult for existing competitors to adequately serve the niche market.
3. When no other companies currently specialize in serving the niche segment.
4. A company does not have adequate financial resources to complete for a large segment of the marketplace.
5. When the total market or industry is so diverse in terms of size, growth, characteristics, wants, interests, needs, desires and profitability.

To be successful, a focus or niche strategy msut be large enough to yield a reasonable profit and must have room for growth. In addition, the company exploring this type of strategy must have the necessary skills to adequately serve the focussed segment.

Organizations employing this competitive strategy usually experience a loyal customer base. Furthermore, businesses can focus more attention on the needs of a specific market segment by offering products and services only that segment desires.

The risk associated with a focus or niche strategy is threefold. (1) unfocused competitors may develop productive methods to duplicate the focussed company by meeting the needs of the small market segment. (2) the needs, wants, interests, and/or desires of the focussed group may switch toward the mainstream of the entire market; thus, eliminating the need for the focussed product or service altogether. (3) if the focus or niche segment becomes extremely profitable, then many rivals may decide to enter the segment - many competitors fight for a very small segment proves disastrous for several smaller firms.

It is important for you to determine which competitive strategy will form the foundation of your company. If you cannot isolate your competitive advantage, then it will be extremely difficult to convince consumer to choose your product or service over competitors. Let us review J&B Incorporated's strategy statement to isolate their selected Competitive Strategy(ies).

Note What sets a focus strategy apart is concentrated attention on a narrow piece of the total market.

Self Assessment

State whether the following statements are true or false:

1. Price setting is a common task for any retail buyer; it is a really massive topic to cover.
2. Branded products prices are usually suggested or imposed by the vendor.
3. A competitive strategy is what allows your business to successfully compete against other rivals within the industry.
4. A low cost producer strategy tends to operate well in industries where consumers are sensitive to prices.
5. A firm contemplating this strategy must not dramatically sacrifice the quality of the product in an attempt to reduce their manufacturing costs.

6. The focus or niche strategy is often confused with the communication strategy.
7. Organizations employing this competitive strategy usually experience a loyal customer base.

11.3 Legal and Ethical Pricing Issues

The price of a product or service plays a large part in how well it sells. Producers and retailers practice ethical pricing strategies to earn profits without defrauding competitors or consumers. Despite that, competitor's prices, convenience, availability and other factors affect consumer impressions of fair pricing. Business laws protect competitors and consumers from many unethical pricing strategies that unscrupulous marketers may wish to attempt.

Fair Pricing

Producers sell products at wholesale costs that pay for the labor, materials and overhead to make the products with a reasonable margin of profit. Retailers commonly mark up the price to two or three times the wholesale cost to pay for employees and overhead with a considerable profit margin for the company and its shareholders. At times retailers cut prices to stimulate sales of particular products or to sell large quantities of popular products.

Advertising Schemes

Trade laws bind companies' advertising price comparisons. A car dealer who claims to sell for thousands less than competitors has to be able to produce documentation of that competitor's prices and their own to prove it. Advertisers publishing an inexpensive product when there is not much inventory of the product are often using the illegal bait-and-switch scheme with a large inventory of a similar product at a much higher price.

Price Cutting

At times firms cut prices to sell off outdated stock or to make way for a new line of products. Some vendors set prices very low for new products to introduce them to the market and inspire customers to try them. These are both legal and ethical pricing strategies. A company uses unethical pricing cuts to squash the sales of competitors by selling the same products for lower prices. Federal laws protect competitors from undercutting.

Monopolizing

A monopoly exists when there is only one source of a particular product. Federal antitrust laws protect competition in the marketplace by outlawing monopolies. The American Telephone and Telegraph Corporation (AT&T) was a communications monopoly. The government divided the company up in 1982, which gave rise to new competing phone companies. It is also illegal to fix prices or divide markets among competitors to undermine competition. An assumed monopoly exists when one firm sets pricing for the whole market.

11.4 Communication Programs to develop Brand Images and Build Customer Loyalty

Your company brand serves as an identification of the promises you make to convey your product/service quality, unique characteristics, and competitive superiority to your customers, as well as being a source for financial gains. So why not make sure your brand is real/real, or fake/real as opposed to real fake?

We are living in a new age, where customers expect you to deliver on your promise. To your customers, your brand is the promise you make to them, and represents the trust they put in your quality and the expectation of superior quality in all your future offerings. Whether you keep this promise or not, consistently, determine the strength and longevity of your brand at each touch point along the customer experience journey.

Since brand management is much more than just marketing your brand, it requires involvement from people at all organizational levels, from your CEO to the individuals who create the products/services and those that interact with customers to provide sales, customer service or technical support on those products/services. This journey, from brand promise creation to delivering the promise offers many opportunities to influence customer advocacy and create brand loyalty.

Creating the Brand

Defining your brand is the first step in brand management. Developing brand definition requires meticulous and in-depth study of your target customers and understanding their needs and expectations. With accurate customer insights you succeed in creating a unique brand that addresses specific customer needs, unfulfilled by competitors. For a brand to be effective, it should be appealing, meaningful, memorable, and evoke strong positive emotions in customers (fun, excitement, security, self-respect, etc.).

In this respect, it is essential that you research organizational capabilities and employee perspectives before defining a brand. Creating a brand vision that you cannot deliver is fatal, If you do not have the time, money or resources support the brand promise (fun, excitement, security, self-respect, etc.), think about what you can do?

Making the Brand

This is the stage where you convey your brand to your employees, customers, and all those individuals that are impacted by your brand. While efforts spanning the organization are essential in the making of your brand, it is the expertise of your brand manager, that plays a major role. An ideal brand manager should:

1. Have a great deal of customer knowledge.
2. Be bold to initiate and implement outside-the-box brand promotion strategies.
3. Ensure the brand meets customer expectations, with packaging, attributes, background, and brand belief (is it really fun, exciting, or make them feel secure).
4. Be adept at bridging distances between company and customers and building relationships throughout the organization.

With an expert brand manager by your side, you succeed in creating the unique positioning for your brand in the minds of your customers and competitors as well.

Delivering Brand Promise

Equalling in significance, perhaps more, is delivering on your brand promise not just once, but consistently over time. Failing on your brand promise deteriorates customer trust and brand image. Keeping your promise to your customers requires the following:

1. Continuous management of organizational capabilities
2. Consistent business process and technology improvements
3. Increased employee engagement through inspiring and people-oriented leadership

Your customers will listen to you only when you listen to them. Engage your customers and listen to them and know their existing and emerging needs. With such strategies, you not only meet but exceed their expectations. Not to say, customer loyalty follows automatically.

⚠

Caution Failure to deliver on the brand promise could disappoint customers - business will either stagger or decease.

11.5 Methods of Communicating with Customers

Communications plays just as important a role in your careers. When asked to name the top three skills they believed their subordinates need, 70 percent of the readers of CIO magazine listed communications as one of them.

Here are some tips on how you can communicate more effectively with people at work, be they customers, co-workers, subordinates, or superiors:

1. ***Beware of interrupting:*** *Titanic* wireless operator Jack Phillips interrupted a wireless message from a nearby ship, telling them to shut up. In doing so, he prevented that ship from sending *Titanic* an iceberg warning.

   Be careful about interrupting others, particularly your customers. They'll be especially upset if, while they're explaining a problem, you interrupt them and start offering a solution. If you feel you've to interrupt, at least cut to the chase and tell the other person what you think his or her main idea was. That way, the other person at least can confirm or correct you, and in either case save time.

2. ***Listen actively:*** Did you ever get the feeling, when talking to someone, that you were really talking to a wall? The person may have heard you but gave no indication of it at all. Avoid doing the same thing. When communicating with others, it's just as important that people be *aware* that you're listening as it is that you're actually listening. For that reason, be involved with and react to what the other person is saying, either via a nod, or an "I see," or a paraphrase of the other person's statements. You'll strengthen your own understanding and make a better impression.

3. ***Avoid negative questions:*** Suppose you say to a customer, "You don't have Word installed?" and he answers "Yes." What does he mean? Yes, you're right, Word is not installed? Or yes, he DOES have Word installed?

   Asking a negative question creates confusion. It's clearer if you phrase the question positively (e.g., "Do you have Word installed?") or ask an open-ended question ("What applications do you have installed?"). If you *must* use the negative, try a question such as "Am I correct that you don't have Word installed?"

4. ***Be sensitive to differences in technical knowledge:*** Chances are, your customers have less technical knowledge than you do. Be careful, therefore, when explaining things to them. If you use acronyms, be sure you identify what the acronym means. The same acronym can mean different things, even in an IT context (for example, ASP can refer to "application service provider" or "active server page"). Be careful that you don't make two opposite mistakes: either talking over their head or talking down to them. Keep your eyes on customers when you talk to them and be alert to cues indicating that they don't understand. Ask them whether they understand what you're saying, if necessary.

5. ***Use analogies to explain technical concepts:*** A good way to explain a technical idea is to use an analogy. Though they have limitations, analogies are helpful in explaining an unfamiliar idea in terms of a familiar one. One of the best analogies I ever heard compared

a firewall to a bank teller. When you enter a bank, you don't just go into the vault and get your money. Instead, you go to a window, where the teller verifies your identity and determines that you have enough money. The teller goes to the vault, brings it back to the window, gives it to you, and then you leave.

6. ***Use positive instead of negative statements:*** Your customers are more interested in your capabilities than in your limitations. In other words, they're interested in what you *can* do, rather than what you *can't* do. The way you say things to them influences how they perceive you and your department. You, as an IT department or individual, can be seen as a roadblock or you can be seen as a partner. So, for example, instead of saying, "I can't help you unless you log off," consider saying, "Please log off so that I can help you." Your statements often will be easier to understand as well.

   Here's another reason to avoid negative statements. Have you ever experienced gaps of silence in your telephone calls, where the conversation breaks up? Usually it happens when using a cell or a VoIP telephone. If the gap occurs as you're saying "not," your recipient could get the opposite message from what you intended.

7. ***Be careful of misinterpreted words and phrases:*** Sometimes we say something with innocent intent, but the other person misinterprets it. We mean to say one thing, but our pronunciation or inflection causes us to convey something else. For example, in Chinese, the sound "ma" said in a high level tone means "mother in law." However, said in a falling and rising tone, it means "horse."

   Be especially careful of the word "you." Overusing this word can make the person you're talking to feel defensive or threatened. Instead of saying, "You need to speak louder," try saying, "I'm having trouble hearing." Another issue involves the dual meaning of "you." Unlike other languages, English uses the same word to refer to an actual person (for example, the person you're talking to) as well as to a hypothetical person. Suppose you said to someone, "You never know what's going to happen next," and meant to equate "you" with "people in general." The other person might think you're referring to him or her specifically and take offense. A better alternative might be, "It's really unpredictable here."

   If someone is upset, one of the worst things to say is "calm down." It might work one half of one percent of the time, but generally all it does is make things worse.

   In general, think before you speak. I'm not saying you always have to be polite or diplomatic. Sometimes you do need to (figuratively, of course) beat people up. However, do consider the alternatives before speaking. As the proverb goes, "He who guards his mouth and his tongue keeps himself from calamity."

8. ***Remember that technical problems involve emotional reactions:*** When customers have a technical problem (for example, they're having trouble printing), keep in mind that they'll almost always have an emotional reaction as well. Those emotions can range from simple annoyance to outright panic, depending on the importance of the document and the time element involved. I'm not saying you have to be Dr. Phil, but it's important to acknowledge and recognize these emotional reactions. If all you do is solve the technical problem and walk away, chances are the customer will still be upset.

   In these cases, simply saying something like, "Pain in the neck, isn't it?" or "I hate when that happens to me" can help the customer feel better about the situation and possibly feel more positive about you.

9. ***Anticipate customer objections and questions:*** In his book *The Art of War*, the ancient Chinese author and strategist Sun Tzu said, "If you know the enemy and you know yourself, you need not fear the result of a hundred battles." Apply this principle when

communicating with customers. In particular, try to anticipate the objections your customers will have to your message and address those objections.

Example: Suppose you're sending out a directive regarding the downloading and application of Windows updates. Suppose further that you have customers who know enough to be dangerous. Such a customer might think, "Well, I'm current in my virus definitions, so this update is unnecessary for me." Your communications with such a customer will be more effective if you anticipate and address that issue. Consider, therefore, a sentence such as, "This Windows update is necessary even if your virus definitions are current."

10. ***Keep the customer informed:*** The area where I live, southeastern Pennsylvania, has a large agricultural presence, in particular involving the production of mushrooms. While they are growing, mushrooms are kept in a dark building and are covered with fertilizer.

    Your customers will become upset if you treat them the same way. Keep them informed of developments involving them, particularly with regard to technical problems and outages. In particular, keep them apprised even if nothing is going on. For example, let them know you've contacted the vendor but still haven't heard anything back. No news is still news.

    If a customer leaves you a request via voicemail or e-mail, let the customer know you received it, even if you are still in the process of handling it. Doing so gives the customer one less matter to worry about.

When a problem is resolved, let the customer know that, too. Nothing is more frustrating to customers than finding out that they could have been working sooner if they had only known.

Note Large retailers may adapt different communication plans for particular geographic markets to take advantage of geographic differences

11.6 Planning the Retail Communication Program

A communication program can be designed to achieve a variety of objectives for the retailer, such as building a brand image of the retailer in the customer's mind, increasing sales and store traffic, providing information about the retailer's location and offering, and announcing special activities.

Retailers communicate with customers both online and offline and interactively and passively. Direct marketing has received the greatest increase in attention by retailers and can occur using telemarketing (offline/interactive), mobile marketing (online/interactive), direct mail and catalogs (offline/passive), and e-mail (online/passive). These elements in the communication mix must be coordinated so that customers have a clear, distinct image of the retailer and are not confused by conflicting information.

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

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

1. Advertising
2. Sales Promotion
3. Public Relations
4. Personal Selling
5. Direct Marketing

Retailers go through four steps to develop and implement their communication program. Establish objectives, determine a budget, allocate the budget, and implement and evaluate the program. Marginal analysis is the most appropriate method for determining how much should be spent to accomplish the retailer's objectives because it maximizes the profits that could be generated by the communication mix. Since marginal analysis is difficult to implement, however, many retailers use rule-of-thumb methods to determine the size of the promotion budget.

When you develop a behaviour change communication plan, design each step to be as participatory as possible. Participation in all steps of the process allows community representatives to participate in decisions, develops a sense of ownership and helps affected communities achieve a sense of normalcy in their disrupted system.

If an emergency strikes, usually the exact details of a communication plan will have to be outlined - often under pressure and with little time. Here are some essential steps you can follow when developing the details of a communication plan for an emergency.

Step One

Bring all stakeholders together: Work with the various stakeholders together (from a given programme or related sectors at a time, e.g., health and hygiene) from government, UN agencies, NGOs and community representatives as quickly as possible to determine:

1. What behaviour results should your communication plan for this programme or sector achieve in the rescue and survival phase; in the recovery phase; and the rehabilitation and development phase of the emergency?
2. What are the roles and responsibilities of the different partners?
3. How will the plan be funded, implemented, monitored, documented and reported?
4. How will the monitoring results be used in the different phases of the emergency?

Step Two

Plan and conduct a rapid communication assessment based on an appropriate combination of tools and applying the next steps below:

Step Three

Determine your audience/s and define SMART behavioural objectives and results. Based on the rapid assessment and on data from any pre-existing communication research, determine who your audience groups are among the affected population.

Define the specific desired behavioural objectives or results you would like to achieve from your communication plan. These behavioural results may vary for the different phases of an emergency response. Define behavioural results so that they are:

1. ***Specific*** in terms of an issue (a behaviour, a skill, knowledge, attitudes), of a specific group and of the geographical location.
2. ***Measurable*** in such a way that changes in people's behaviour can be measured, either quantitatively or qualitatively.
3. ***Achievable*** in that the behavioural results correlate to a target that can feasibly be attained by the programme partners with UNICEF and others' support, and that all necessary resources are identified and budgeted.
4. ***Relevant*** so that the planned behavioural result(s) represent a milestone in the results chain, and will contribute to the achievement of commitments for the emergency response.
5. ***Time-bound*** in that a time frame has been set within which change is expected to happen.

Keep in mind that behavioural results have to contribute to the overall results – health and nutrition, child protection, education, water and sanitation - in the emergency.

Step Four

Based on the specific intended behavioural results, determine the details of the communication plan:

1. Which combination of communication strategies to use: advocacy, BCC, social mobilization?
2. Which groups of people to involve as partners, to mobilise, orient or train?
3. What specific training needs and orientations are required, for which group/s for the plan to be carried out quickly?
4. Which communication activities, main messages and materials? Where can you obtain examples of messages and materials that you can quickly adapt?
5. What mix of communication channels (e.g. mass media, interpersonal communication, community media, etc.) by which phase of the emergency?
6. What is the dissemination plan for the communication messages and materials?
7. What is the timeline for communication activities during different phases of the emergency?
8. What is the monitoring (including indicators and means of verification), evaluation, documentation and reporting plan?
9. What is the total budget?

Step Five

When implementing the plan, keep the following in mind:

1. Pre-test messages and materials with representative groups from different affected communities;
2. Conduct the training early on, which may include training of interpersonal communicators such as animators, peer educators, health workers, teachers and young people;
3. Orient and involve journalists in your efforts;
4. Mobilise partners and communities to support and implement the plan.

Step Six

Establish a Monitoring System

Manage and monitor communication activities as part of the overall emergency programme monitoring effort. Ideally, use community monitoring systems among affected population groups. Based on the monitoring data, adjust activities and materials accordingly. Programme and service delivery data, such as immunization drop out, decrease in diarrhoea rates, also serve as monitoring information and should be used to modify communication activities or messages.

Step Seven

Evaluate and re-plan: Based on the desired behavioural results, assess outcomes and if possible any behavioural impact. Disseminate results to partners – including affected community members. Determine the need for follow-up and for continued support to shape behaviours, and for communication support in the recovery and rehabilitation phase of an emergency. In evaluating impact, contributions that can be linked to communication efforts should be an integral part of a programme evaluation rather than a separate evaluation of communication initiatives.

Did u know? Informing, persuading and reminding are the key functions of the retail programme.

Self Assessment

Fill in the blanks:

8. .... sell products at wholesale costs that pay for the labor, materials and overhead to make the products with a reasonable margin of profit.
9. .... commonly mark up the price to two or three times the wholesale cost to pay for employees and overhead with a considerable profit margin for the company and its shareholders.
10. Retailers communicate with customers both online and offline and interactively and ....

Case Study

Factor's Behind Zara's Retail Profitability

Zara is the flagship brand of the Spanish retail group, Inditex SA, one of the super-heated performers in a soft retail market in recent years. When Inditex offered a 23 per cent stake to the public in 2001, the issue was over-subscribed 26 times raising Euro2.1 billion for the company. What makes Inditex so tasty? Well, for a start, it seemed to show higher profit margins than comparable retailers, and secondly, the trend seemed sustainable. Good bet for most investors.

The Awkward Factor in the Profitability Formula

Buy low, sell high. Buy on credit, sell on cash. Retail profitability often seems like a no-brainer.

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If you sell at X dollars and buy at Y dollars, as long as your operating and financial costs are lower than the gross margin i.e. the difference between X (selling price) and Y (cost), you should be making money. And what with retailers running around with gross margins of 50-60 per cent (that is more than half of their retail price), making money should be no problem, right?

Wrong. In highly perishable goods such as fashion products that are susceptible to seasons, gross margin is meaningless if the product does not sell as planned. In simple terms, you make more money if you sell more, even at a lower margin 30 per cent on sales of ₹ 100 is better than 60 per cent on ₹ 10. Given the unpredictability in fashion, it is quite likely that you will end up selling a large proportion of your products at a discount. For many retailers, 35-40 per cent of the total merchandise being sold at hefty discounts is quite the norm.

Imagine fashion clothing to be like vegetables, or bread. On the first day it looks very appetising and has lots of buyers. By the second and third day it starts to look stale, but customers may still pick it up, maybe at lower prices. By the time a week is over, the retailer is probably better off giving the bread away just to clear up space.

Working with him in the last few years, Inditex Chief Executive José María Castellano is quoted as saying, "This business is all about reducing response time. In fashion, stock is like food. It goes bad quick."

Zara, which contributes around 80 per cent of group sales, concentrates on three winning formulae to bake its fresh fashions:

Short Lead Time = More fashionable clothes

Lower quantities = Scarce supply

More styles = More choice, and more chances of hitting it right

Short Lead Times: Keeping Up With Fashion

By focussing on shorter response times, the company ensures that its stores are able to carry clothes that the consumers want at that time. Zara can move from identifying a trend to having clothes in its stores within 30 days. That means that Zara can quickly identify and catch a winning fashion trend, while its competitors are struggling to catch up. Catching fashion while it is hot is a clear recipe for better margins with more sales happening at full prices and fewer discounts. In comparison, most retailers of comparable size or even smaller, work on timelines that stretch into 4-12 months. Thus, most retailers try to forecast what and how much its customers might buy many months in the future, while Zara moves in step with its customers.

A very large design team based in Coruña in North West Spain is busy throughout the year, identifying the prevalent fashion trends, and designing styles to match the trends. Trend identification comes through constant research not just traditional consumer market research, but a daily stream of emails and phone calls from the stores to head office. Unlike other retailers, Zara's machinery can react to the report immediately and produce a response in terms of a new style or a modification within 2-4 weeks. Many other retailers have such long supply chain lead times that for them it would seem a lost cause for them to even try and respond to a sales report.

Reducing Risks

By reducing the quantity manufactured in each style, Zara not only reduces its exposure to any single product but also creates an artificial scarcity. As with all things fashionable, the

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less its availability, the more desirable the object becomes. When Zara opened its first store on London's Regent Street, shoppers are said to have browsed without shopping, thinking that they would come back to buy during a sale. Then the store assistants explained that the styles were changed every week, and the style liked by the customer would very likely not be available later. Subsequently, Regent Street became one of Zara's most profitable stores and more stores opened in the UK.

The added benefit of lower quantities is that if a style does not work well, there is not much to be disposed when the season-end sale does happen. The result is that Zara discounts only about 18 per cent of its products, roughly half the levels of competitors.

Leadership in Numbers

Thirdly, instead of more quantities per style, Zara produces more styles, roughly 12,000 a year. Thus, even if a style sells out very quickly, there are new styles already waiting to take up the space.

Zara can offer more choices in more current fashions than many of its competitors. It delivers merchandise to its stores twice a week, and since re-orders are rare the stores look fresh every 3-4 days. Fresh produce, moving in step with the fashion trend and updated frequently the ingredients are just right to create the sweet smell of success.

But how does Zara achieve its three key success factors, which would be a nightmare for most other retailers: of producing small quantities of numerous styles in short time spans? Let us look at the mechanisms that enable Zara to deliver on these parameters as well as some unique aspects of the retailer's business model.

If you thought that it is not possible to produce all this success in the same kind of set-up as other retailers, and that it also has to cost something, you would be absolutely correct on both counts. Zara follows a structure that is more closely controlled than most other retailers, and pays further by having the various business elements in close proximity to each other, around its headquarters in Spain.

Ownership and Control of Production

For one, most other retailers (like the American chain Gap and the Swedish retailer Hennes & Mauritz) completely outsource their production to factories around the world, many of them in low cost Asian countries. In contrast, it is estimated that 80 per cent of Zara's production is carried out in Europe, much of it within a small radius of its headquarters in Spain. In fact, almost half of its production is in owned or closely-controlled facilities. While this gives Zara a tremendous amount of flexibility and control, it does have to contend with higher people costs, averaging 17-20 times the costs in Asia.

Counter-intuitively Inditex has also gone the route of owning capital-intensive manufacturing facilities in Spain. In fact, it is a vertically integrated group, with up-to-date equipment for fabric dyeing and processing, cutting and garment finishing. Greige (undyed fabric) is more of a commodity and is sourced from Spain, the Far East, India, and Morocco. By retaining control over the dyeing and processing areas, Inditex has fabric-processing capacity available "on demand" to provide the correct fabrics for new styles. It also does not own the labour-intensive process of garment stitching, but controls it through a network of subcontracted workshops in Spain and Portugal.

Supercharged Product Development

Design and product development is a highly people-intensive process, too. The heavy creative workload of 1,000 new styles every month is managed by a design and development team of over 200 people, all based in Spain, each person in effect producing around 60 styles in a year (or 1-2 styles a week).

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With new styles being developed and introduced frequently, each style would provide only around 200,000-300,000 of retail sales, a far lower figure than other retailers or brands, and certainly not "cost-efficient" in terms of design and product development costs. But obviously, this higher cost of product development is more than adequately compensated by higher realised margins. In addition, the entire product development cycle begins from the market research. This combines information from visiting university campuses, discos and other venues to observe what young fashion leaders are wearing, from daily feedback from the stores, and from the sales reports. This has meant a significant investment in information technology and communications infrastructure to keep streaming up-to-date trend information to the people making the product and business decisions.

At the leading edge of research are the sales associates and store managers in Zara stores, who zap orders on customised handheld computers over the Internet to Zara headquarters based on what they see selling. And not just orders, but ideas for cuts, fabrics or even a whole new line. They draw upon customer comments, or even a new style that a customer might be wearing that could be copied for Zara's stores. Traditional daily sales reports can hardly provide such a dynamically updated picture of the market.

React Rather Than Predict

What sets Zara apart from many of its competitors is what it has done to its business information and business process. Rather than concentrating on forecasting accurately, it has developed its business around reacting swiftly.

Here's a flavour of what a typical retailer or brand might do.

Say, around a certain time, designers may start looking at fashion trends, and start designing a look for Winter 2004. Information and inspiration comes from forecasting agencies, trade shows, and various other places. Over a period of 3-5 months they develop the ideas into physical samples. These are also simultaneously costed. Sales budgets and stock plans are developed based on what is going on in the business right then (roughly one-year ahead of the targeted style). At various times during this "seasonal" process, there are decision-making meetings, where styles are accepted, rejected or changed, pricing and margin decisions taken and orders finalised.

Since multiple decisions factors are involved there are several meetings where a buyer / merchandiser, a designer, a technologist, a sourcing specialist and others may get involved together. No doubt, many calendars and travel schedules have to be synchronised for this to happen smoothly.

Based on a host of factors, the orders might then be placed with vendors in one or more countries around the world. Typically vendors may take a few weeks to two months to procure fabrics, have them approved by the retailer, and then produce a number of samples, and only once all approvals are finished, put the style into production.

From beginning to end, the process of defining a concept to receiving goods in the retail store might take anywhere from 9 to 12 months for a typical retailer. This one-year advance decision-making on what merchandise and how much to stock, is a bit like driving a car at speed by just looking in the rear view mirror! Amazingly, it seems to work 60-65 per cent of the time.

Zara, on the other hand, largely concentrates its forecasting effort on the kind and amount of fabric it will buy. It is a smart hedge for one, fabric (raw material) mistakes are cheaper than finished goods errors, and secondly, the same fabric could be turned into many different garments. In fact, for an extra degree of flexibility Zara buys semi-processed or un-coloured fabric that it colours up close to the selling season based on the immediate

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Notes

need. With that edge, and a super-fast garment design and production process, it takes to the market what its customers are looking for.

Quick-Bake Recipe: Well-Mixed Ingredients

Garment styling for Zara actually starts from the email or phone call received from the stores. Thus, from the beginning Zara is responding to an actual need, rather than forecasting for a distant future.

Based on the store demand, Zara's commercial managers and designers sit down and conceptualize what the garment will look like, what fabric it will be made out of, what it will cost and at what price it will sell.

The designer then actually sketches the garment out, details the specifications and prepares the technical brief. Since fabrics and trims are already in Zara's warehouse, sampling takes very little time. Approvals are equally quick, since the entire team is located in the same place.

As soon as approvals are received, instructions are issued to cut the appropriate fabric. The cutting is done in Zara's own high-tech automated cutting facilities. The cut pieces are distributed for assembly to a network of small workshops mostly in Galicia and in northern Portugal these 350 workshops between them employ some 11,000 apparently grey-economy workers. None of these workshops are owned by Zara. The workshops are provided with a set of easy to follow instructions, which enable them to quickly sew up the pieces and provide a constant stream to Zara's garment finishing and packing facilities. Thus, what takes months for other companies, takes no more than a few days for Zara.

Finally, Zara's high-tech distribution system ensures that no style sits around very long at head office. The garments are quickly cleared through the distribution centre, and shipped to the stores, arriving within 48 hours. Each store receives deliveries twice a week, so after being produced the merchandise does not spend more than a week at most in transit.

Keeping Costs Down

Even while manufacturing in Europe, Zara manages to keep its costs down. None of its assembly workshops are owned by the company. Most of the informal economy workers the workshops employ are mothers, grandmothers and teenage girls looking to add to their household incomes in the small towns and villages where they live. Last year the average monthly salary of a Spanish industrial worker was about 250,000 pesetas - $1,300 a month, excluding the state's 30.8 per cent charge for social contributions. In contrast, according to reports, the workshops working for Inditex may or may not pay the social charges. According to one estimate, the seamstresses probably get something less than half the average industrial wage, maybe $ 500 a month. These are around 5-6 times typical Indian or Chinese wages, and yet offer the flexibility beyond what Asian factories can, which has a tremendous impact on ratio of full-price merchandise sales.

Further, in terms of marketing costs, Zara relies more on having prime retail locations than on advertising for attracting customers into its stores. It spends a meager 0.3 per cent of sales on advertising compared to an average of 3.5 per cent of competitors according to the company, choosing highly visible locations for its stores renders advertising unnecessary.

Question:

Discus how Zara manages to keep its costs down.

Source: thirdeyesight.in/articles/ImagesFashion_Zara_Part_I.pdf

11.7 Summary

- Producers sell products at wholesale costs that pay for the labor, materials and overhead to make the products with a reasonable margin of profit.
- Retailers commonly mark up the price to two or three times the wholesale cost to pay for employees and overhead with a considerable profit margin for the company and its shareholders.
- Retailers communicate with customers both online and offline and interactively and passively.
- Psychological pricing is used when prices are set to a certain level where the consumer perceives the price to be fair.
- Buyers will buy a high priced product because they believe that the high price is a good indicator of value.
- Reference pricing is when buyers have a psychological response to the price that mirrors the way they view a price's relationship to a specific product.
- A practice where manufacturers or wholesalers seek to control the retail price of their merchandise through some sort of agreements.
- Price setting is a common task for any retail buyer; it is a really massive topic to cover.
- A competitive strategy is what allows your business to successfully compete against other rivals within the industry.
- A business employing a focus strategy targets (focuses on) a small segment of the marketplace that is not well served by existing businesses.
- A good way to explain a technical idea is to use an analogy.

11.8 Keywords

Horizontal Pricing: This practice involves agreements between manufacturers, wholesales and retailers to set prices. Such agreements usually are illegal under Indian sales laws.

Minimum Price Laws: These laws prevent retailers from selling certain items for less than their cost plus a fixed percentage to cover overhead.

Price Discrimination: A pricing practice where different prices are charged from different retailers for the same merchandise and same quality.

Psychological pricing: It is used when prices are set to a certain level where the consumer perceives the price to be fair.

Unit Pricing: The objective of such legislation is to let the customers compare the prices of product available in many sizes. For instance, food and grocery stores must express both the total price of an item and its price per unit of measure.

Vertical Price Fixing: A practice where manufacturers or wholesalers seek to control the retail price of their merchandise through some sort of agreements.

11.9 Review Questions

1. Discuss the pricing strategies.
2. What is demand oriented pricing?
3. Explain cost oriented pricing.
4. Describe the retail pricing strategies.
5. Explain psychological pricing.
6. What are the considerations in setting retail prices?
7. What are the pricing techniques for increasing sales and profits?
8. Discuss about legal and ethical pricing issues.
9. What are the methods for communicating with customers?
10. Discuss about planning the retail communication program.

Answers: Self Assessment

1. True
2. True
3. True
4. True
5. False
6. False
7. True
8. Producers
9. Retailers
10. Passively

11.10 Further Readings

Books

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

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

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Online links

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Objectives

After studying this unit, you will be able to:

- Explain about Store Management Responsibilities
- Discuss about Recruiting and Selecting Employees
- Describe Motivating and Managing Store Employees
- Evaluating Store Employees and providing Feedback
- Discuss about Compensating and Rewarding store Employees

Introduction

Virtually every enterprise finds it necessary to hold 'stocks' (or 'inventory') of various items and materials. That is because it would be practically impossible to operate with only one of each item to be sold or used in manufacture or used in office work. A 'reserve' or a 'fund' or 'inventory' of each item or material used or sold frequently is therefore 'maintained', so that as items or materials are sold or used they can be replaced or replenished from the stocks 'held in reserve'.

Let us take a footwear shop as an example to make these matters quite clear to you. There will be a variety of different shoes, boots, etc, on display - both in the shop's windows and inside the shop itself. It would be very inconvenient and time-consuming for a shop assistant to have to remove the footwear from the display each time a customer wished to try on a pair. And, in any case, only one size and colour of each style or type of shoe, boot, sandal, etc., is likely to be on display at any one time.

Instead, when a customer expresses interest in a particular style, a shop assistant will ask the size he or she usually wears and the colour preferred, and will then try to find the right size and colour from the pairs of footwear held in reserve. In many cases pairs of popular items in the most commonly asked for sizes will be kept inside the shop itself, on shelves or in cabinets. But other pairs will be kept in another room - or perhaps in more than one room - to which the shop assistant can go to find the footwear concerned; that room is the 'store room' or 'stock room'.

When a pair of shoes or other footwear is sold from those inside the shop, it must be possible to replace that pair quickly, whenever possible, by another pair held in the store or stock room. No business could operate efficiently if every time it sold an item or used up an item in manufacture, it had to order a replacement from the supplier or manufacturer. Of course, from time to time, items can 'run out of stock' but, as you will learn during this Program, efficient stock control will reduce or eliminate such happenings, and ensure that replacements are received in good time, and are available when required to replace those items sold or used.

12.1 Store Management Responsibilities

Store Manager's often go by titles like general manager or SGM (store general manager). They usually have at least one assistant manager working for them as well as various department managers and hourly employees. A store manager can work in grocery, clothing, mass merchandiser or even furniture stores. A store manager has numerous responsibilities and duties each day.

Profit and Loss

1. Store managers are responsible for meeting their region's sales and profit goals each year. In order to meet their sales and profit targets, store managers sometimes develop local marketing and promotional plans to increase business. Additionally, a store manager strives to increase customer satisfaction in his store through his employees and arranging merchandise so it is easy to find. A store manager's duties also include minimizing losses due to damage or theft. Loss prevention can include instructing other managers when to count down registers or when to close doors in the back of the store.

Store Operations

2. A store manager's duties almost always include overseeing the various departments in the store, including inventory management and ordering. The store manager may need to communicate area management goals to individual department managers and get their assistance in improving store operations such as service, cleanliness and image.

Hiring and Firing

3. A store manager's duties also include overseeing the interviewing, selection and hiring of all new employees. The manager must ensure that all employees meet the standards of the regional office. Store managers may need to arrange for prospective assistant managers to meet with their area manager for approval. Contrarily, store managers must discipline or fire employees at times, making sure they follow the proper procedures to avoid possible litigation.

Training

4. A store manager's duties may entail directly training assistant managers on opening and closing procedures. Moreover, store managers usually oversee the training of all hourly employees, which can include stocking and pricing procedures as well as cash register training. A store manager may also attend seminars or off-site management sessions to enhance his own skills.

Payroll Processing

5. The store manager is responsible for ensuring that all employee paperwork or hours are approved so that people can get paid. Checks may be sent directly to the store, which the manager would then distribute; or the store could pay people electronically.

Meetings

6. At least part of the store manager's duties will entail meeting with the area manager and other store mangers to keep up with regional policies. For example, the region may have a special promotion that requires specific instructions. The store manager would then communicate the procedures of the new promotion to his employees.

In a **retail store business**, the progress operations of the store is affected by the skill of a store manager. Store manager is an important person and representation of the company at the forefront. Because of it, a store manager must know and understand the duties and responsibilities so that the store operation runs smoothly and generate maximum profit for the company.

Duties and responsibilities of a store manager is very complex. Therefore, knowing the main duties and responsibilities of a store manager is a must so that he can arrange the priority scale of these tasks.

Responsibilities of a store manager is as follows:

1. ***Sales and Profitability:*** Store managers know that they must achieve set sales target, but very few are aware that they must obtain profit from the **business**. Store manager should well aware that store health is measured from the store profit generated, not merely of the sales. Sales was important because it is the purpose of the existence of a store, but profit is the main purpose of a business. What does it mean a lot of sales but little profit, especially with no profit at all. Profitability is determined by sales amount earned by the number of cost incurred. To gain maximum profit, a store manager must have good ability in terms of cost control.
2. ***Inventory Handling:*** **Retail stores** are businesses that depend on the availability of inventory or merchandise. In fact it may be said that the inventory is the heart of a retail store. A store manager must have good skills in handling inventory, because this greatly affects the sales of the store they lead. Good analytical skills in Inventory Turn Over (ITO) for the goods available at his store is necessary so can be quickly converted into cash.
3. ***Control of Human Resources:*** The ability in controlling of human resources is a responsibility that may be most difficult. Because control of these resources requires the capability of supporting a very complex includes **communication skills**, management, psychology, recruiting, training, motivating, and evaluating. If they good in this, then they are not just a store manager, they are also a **good leader**.
4. ***Control of Assets:*** The purpose of control of these assets is to ensure that all existing assets in the store are working properly so it supports the achievement of operational objectives. Assets that are the responsibility of the store manager is:
    (a) Tangible assets, such as equipments and buildings.
    (b) Intangible assets, such as corporate image, **brand**, service.
5. ***Customer Service:*** **Every business is a "service" business**. This term is indicated on the importance of customer service, because service is what determines loyalty, satisfaction, and customer convenience in shopping. In the end, of course determine the sales turnover. Therefore, a store manager responsible for determining and carrying out of services

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performed by all of his team. Service is not only determine the turnover of sales alone, but even further is that it determines the image and brand awareness stores lead. And brand image is nothing but a **business** asset that must be maintained and controlled.

Did u know? The store manager has a dual function - a leader of his team and the guardian of the policies and guidelines laid down by the management.

12.2 Recruiting and Selecting Employees

The employee recruitment process is one of the more critical aspects of running a successful business. As a business owner or manager you need good employees to address critical business needs. And yet most everyone treats hiring as a necessary evil only to be done when it is absolutely necessary.

Adopting a different philosophy about recruiting and hiring employees can provide the edge necessary to get the best employees, faster and for less money.

Start by understanding what employee recruiting is all about. Think of recruitment as an ongoing process designed to develop a cadre of qualified candidates. There are two key take-aways from this approach.

First, the search for new employees needs to be an ongoing process. If you recruit only when a position is open, you will always be in a reactive mode. The best analogy I can provide is to think of recruiting just like selling. You are always on the lookout for new sales opportunities. The same holds for efforts to hire great people.

Second, you want a choice of qualified candidates. To have qualified candidates it is necessary to understand the business needs and what skills and behaviors will be successful in your environment. Knowing what to look for and relentlessly trying to find those people are the keys to successfully recruiting and hiring top employees.

The art of recruiting and selecting good employees is one that takes an organizational commitment by the company. Hiring fast and hiring well are not going to yield the same results. Take a step back, review your current practice for hiring and recruitment, then compare them to these strategies.

Task Discuss about Recruiting and Selecting Employees.

Create Awareness

Unless yours is a major company with a large area of influence, creating awareness is going to be necessary. You can:

Get a Booth at a Job Fair

The idea is to develop a talent pool of prospective employees in advance of actually needing them. Think of it like grocery shopping. You go to the store and stock up on food before you will be eating it. You do this for advance preparation, because you know you will get hungry. Hiring employees works the same way. Advance preparation will allow you a better opportunity to select from good talent.

Task Register with a college and speak for a few moments in front of students. Tell your current employees to spread the word about the company to family and friends. Ask for referrals from top employees.

Provide Opportunity and Expectation of Growth

According to Paul Sarvadi of Entrepreneur Magazine, "Researchers agree that the best way to hire and keep top talent is to create a company culture where the best employees want to work, a culture in which people are treated with respect and consideration at all times."

This means that by taking care of your current employees first, you can accomplish a couple of different goals. First, you will retain more of your current employees due to their satisfaction with the company. Second, you will create a good learning atmosphere, which will allow current employees to grow and be selected for other opportunities within your organization. By creating a healthy internal atmosphere much of your recruitment can come from within.

Selection Criteria

Choosing the right candidate is an important decision. While some people may have the right history, they have the wrong attitude. Some may have the right attitude but score poorly on a compatibility test. When hiring an individual who is new to the company, two criteria are paramount: attitude and motivation.

When you hire only people with an outstanding attitude and tremendous motivation, you vastly increase the odds of your organization's success. Skills can be learned, but a good attitude and motivation cannot be. You cannot force someone to change his mental make-up, but the person who already is motivated and has the right attitude will push herself to learn the skills you require.

Southwest Airlines, renowned for its strong company culture and customer experience, practices this method. In an article for Fast Company, Peter Carbonara writes that hiring specialist "José Colmenares is not looking for a fixed set of skills or experiences. He's searching for something far more elusive and much more important—the perfect blend of energy, humor, team spirit, and self-confidence..."

Caution References should be adequately checked; wrong selection could cost a company in terms of lost sales and turn over.

12.3 Motivating and Managing Store Employees

Each person on the planet has their own unique ideas, interests, talents, skills, and motivators. Even twins who share similar DNA have different opinions, interests, and motivators. So if we understand this, why do so many organizations have one set of motivators to try and change the behavior of the masses?

Does anyone else see anything wrong with this picture?

Our society is moving toward more and more customization. Have you noticed the increase in choices you have every day, from customizing your morning mocha to creating your own web page. So why is it that many organizations continue to do things the old way? You might hear the old adages: "change is hard, we do not have the budget for such customization this year, (insert your own phrase here), etc." Motivation is not just paying people more or offering them more perks and bonuses. Has anyone seen or taken an MBA course on how to motivate your employees that entails more than reviewing Maslow's hierarchy of human needs? I believe that managers in this new economy and beyond need a different set of skills in order to harness the potential of knowledge workers.

Most managers understand that part of their job is to motivate and engage their employees. Some of the typical avenues might be: one on one status meetings, periodic outings for lunch or coffee, or maybe sitting in on project meetings to see how things are going. These three instances are an example that there is ample opportunity and time to customize an employee's motivation. So why does it not happen on a regular basis?

When customizing an employee's motivation a manager needs to be skilled at understanding the employee's four drives; **Acquire and Achieve**, **Bond and Belong**, **Challenge and Comprehend**, and **Defend and Define**. Once they understand their employee's individual four drives the next step is to discover what the employee is not saying about what motivates and drives them. Many times when you ask someone, "What Motivates You?" they will probably give you an answer fairly quickly – but by digging and reflecting a little bit deeper into their answer you may discover something else entirely. There is more to motivating employees than just utilizing one model and tools.

The four drive model is a good start but a manager also needs to understand reflective questioning techniques, asking open ended questions, utilizing gap analysis, and paying attention to body language, etc. Managers need to customize their motivational methods based on these insights.

For instance, **Employee A** really likes to be seen as an expert – so provide opportunities for that person to shine and be recognized as the expert (i.e., lead a brown bag lunch, ask them to help present at a Senior Leadership meeting about something they know well). **Employee B** wants to feel part of a close knit group so create avenues for that to happen (i.e., hold small team lunches with two or three people, set up small work teams to address some particular issue). **Employee C** has the drive to Acquire so the manager must focus that person on what they can do to earn more (i.e., review the incentive or recognition program with them, work with them on what they need to do to get a raise). The important part is to understand how each person is motivated and to tap into that motivation. This isn't easy.

As I stated in the beginning of this post, every person on the planet is unique. Managers have an incredible opportunity to develop and grow their employees but it will take adopting and learning some new skills and a genuine time commitment.

Employees are more than just their paycheck; they are each contributing their time, skills, knowledge, and talents to an organization. I believe they deserve our time and attention, what about you?

Motivating Your Retail Sales Staff

Keep a Positive Mindset

Retail is a day to day business. Some days you are HOT and some days your NOT. Don't buy into the down economy. This is not a bad economy - the US will experience a 10 trillion dollar economy this year alone. There is a lot of money to go around! If you are doing the right things to market your business and staying in touch with your customers on a regular basis they will return after your slow period of summer vacations, back to school, etc.

When you keep your positive mindset it will flow onto your sales staff and motivate them to keep a positive mindset on the sales floor. This will keep your register ringing and your sales up. When you encourage a positive atmosphere with enthusiasm it is contagious.

Enthusiasm = Positive Emotions
Positive Emotions = Happy Customers
Happy Customers = More Sales and More Profits For You

Offer More Flexible Hours

Ask your staff to let you know in advance of your scheduling what days they will need off. Discuss your willingness to make it work for them. If business is slow offer some bonus paid vacation time to your best salespeople. The appreciate and surprise benefit will motivate them to become more loyal to your organization and they will return the favor with hard work and more determination to succeed.

Encourage Creativity

When times are slow hold more sales meetings to discuss new promotions, advertising, inventory, customer service, and future goals. Always get input from your staff at these meetings and have some fun with a creative brainstorming session that puts every one's ideas to work.

Be Open, Not Intimidating

Let your staff know that your door is always open to support them and listen to their ideas and concerns. Create a family atmosphere where people can feel they trust and support one another through the good times and the bad.

Have Fun

All work, and no play, can make for a dull day. Don't take your business too seriously. Lighten up, relax and enjoy some free time when your retail business is not in full swing. If you can't stand being around in during the down times - get out of the store and take a short vacation or attend workshops to build your business. Make sure to plan for a lot of relaxation time to refocus.

Discover new ways to look deeper into your business and focus on what you are thankful for and where you plan to go in the future. Upon your return, share your new discoveries with your sales staff during a fun and relaxed meeting. They will pick up on your motivation and feel more confident about their own future within your organization.

Remember Birthdays and Anniversaries

Recognize and celebrate with your staff often. Host an annual anniversary party for all the sales staff that have been with your retail store one year or longer. Make them feel special with surprise gifts and a very special evening out on the town. Or host an off-site meeting at a restaurant or a picnic in the park for their entire family.

Snoop Days

Take out your entire staff to shop the competition. If you have a large staff you may want to break this up during two or three different days and maybe even rent a large van so that you can all travel together and have some fun during your adventure. Introduce yourself to the competition. Let them know why you are shopping their store and offer to send them business in areas that you do not focus on in your retail store.

Your competitors can often be your best alliances. It will be a good lesson for your staff to learn and understand this competitive advantage of making friends with the competition. After your tour, take your staff out for lunch or dinner and discuss all the things your competition is doing RIGHT. The areas where they excel are the areas to watch out for. By educating yourself and your sales team to your competitors strengths and weaknesses, you will automatically feel more confident and motivated to move forward and succeed.

Note The duties of store managers vary according to the type of merchandise sold, the size of the store, and the number of employees

Self Assessment

Fill in the blanks:

1. The .... recruitment process is one of the more critical aspects of running a successful business.
2. The art of .... and selecting good employees is one that takes an organizational commitment by the company.
3. The .... is to develop a talent pool of prospective employees in advance of actually needing them.
4. The .... drive model is a good start but a manager also needs to understand reflective questioning techniques.
5. Most .... understand that part of their job is to motivate and engage their employees.

12.4 Evaluating Store Employees and Providing Feedback

Employers who routinely review employee performance and conduct regular employee evaluations reap tremendous benefits:

1. Your employees will know what you expect of them. They will receive feedback, praise, and criticism of their work, and will have notice of any shortfalls in their performance or conduct.
2. You can recognize and reward good employees and identify and coach workers who are having trouble.
3. The communication required to make the evaluation process effective ensures that you will stay in tune with the needs and concerns of your workforce.

The evaluation process also nips a lot of employment problems in the bud. Performance evaluations can keep you out of legal trouble by helping you track and document your employees' problems.

Create Standards and Goals

Before you can accurately evaluate employee performance, you need to establish a system to measure that performance. For each employee, you need to come up with performance standards and goals.

Performance standards: Performance standards describe what you want workers in a particular job to accomplish and how you want the job done. These standards apply across the board, to every employee who holds the same position. For example, a standard for a salesperson might be to make $50,000 in sales per quarter. Make sure your standards are achievable and directly related to the employee's job.

Goals: Unlike performance standards, goals should be tailored to each employee; they will depend on the individual worker's strengths and weaknesses. For example, a goal for a graphic artist might be learning a new software program that will make his or her work more efficient; for an accounting professional, a goal might be to take the exam to become a certified public accountant. Your workers can help you figure out what reasonable goals should be.

Once you have defined the standards and goals for each position and worker, write them down and hand them out to your employees. This will let your employees know what you expect and what they will have to achieve during the year to receive a positive evaluation.

Did u know? Many legal rules place the employer at risk because of employee misconduct.

Keep Track of Employee Performance

Throughout the year, track the performance of each employee. Keep a log for each worker, either on your computer or on paper. Note memorable incidents or projects involving that worker, whether good or bad. For example, you might note that a worker was absent without calling in, worked overtime to complete an important project, or participated in a community outreach program on behalf of the company.

If an employee does an especially wonderful job on a project or really fouls something up, consider giving immediate feedback. Orally or in writing, let the employee know that you noticed and appreciate the extra effort — or that you are concerned about the employee's performance. If you choose to give this kind of feedback orally, make a written note of the conversation for the employee's personnel file. It is also a good idea to have a policy on progressive discipline; for some guidance.

Giving the Evaluation

At least once a year, formally evaluate each employee by writing a performance appraisal and holding a meeting with the employee. To prepare, gather and review all of the documents and records relating to the employee's performance, productivity, and behavior. Review your log and the employee's personnel file. You might also want to take a look at other company records relating to the worker, including sales records, call reports, productivity records, time cards, or budget reports.

Once you have reviewed these documents and gathered your thoughts about the employee's work, write the appraisal (or, if you will solicit input from other managers, ask each of them to complete an evaluation, and then compile them). Although an appraisal can take many forms, it should include:

1. each standard or goal you set for that worker and that job,
2. your conclusion as to whether the employee met the standard or goal, and
3. the reasons that support your conclusion.

When you have finished writing the appraisal, set up a meeting to discuss it with the employee. Remember, this is likely to be one of the most important meetings you have with each employee all year, so schedule enough time to discuss each issue thoroughly. At the meeting, let your worker know what you think he or she did well and which areas could use some improvement. Using your evaluation as a guide, explain your conclusions about each standard and goal. Listen carefully to your worker's comments — and ask the worker to write them down on the evaluation form. Take notes on the meeting and include those notes on the form.

Caution Supervisors, who may not even be within sight, can track employees' performance by the minute.

Evaluation Tips

Giving evaluations can be difficult. Some workers react to criticism defensively. And, sometimes, no one understands what merits a positive evaluation. If your workers feel that you take it easy on some of them while coming down hard on others, resentment is inevitable. Avoid these problems by following these rules:

1. ***Be specific:*** When you set goals and standards for your workers, spell out exactly what they will have to do to achieve them. For example, don't say "work harder" or "improve quality." Instead, say "increase sales by 20% over last year" or "make no more than three errors per day in data input." Similarly, when you evaluate a worker, give specific examples of what the employee did to achieve — or fall short of — the goal.
2. ***Give deadlines:*** If you want to see improvement, give the worker a timeline to turn things around. If you expect something to be done by a certain date, say so.
3. ***Be realistic:*** If you set unrealistic or impossible goals and standards, everyone will be disheartened — and will have little incentive to do their best if they know they will still fall short. Don't make your standards too easy to achieve, but do take into account the realities of your workplace.
4. ***Be honest:*** If you avoid telling a worker about performance problems, the worker won't know that he or she needs to improve. Be sure to give the bad news, even if it is uncomfortable.
5. ***Be complete:*** Write your evaluation so that an outsider reading it would be able to understand exactly what happened and why. Remember, that evaluation just might become evidence in a lawsuit. If it does, you will want the judge and jury to see why you rated the employee as you did.
6. ***Evaluate performance, not personality:*** Focus on how well (or poorly) the worker does the job — not on the worker's personal characteristics or traits. For instance, don't say the employee is "angry and emotional." Instead, focus on the workplace conduct that is the problem — for example, you can say the employee "has been insubordinate line managers twice in the past six months. This behavior is unacceptable and must stop."
7. ***Listen to your employees:*** The evaluation process will seem fairer to your workers if they have an opportunity to express their concerns, too. Ask employees what they enjoy about their jobs and about working at the company. Also ask about any concerns or problems

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they might have. You'll gain valuable information, and your employees will feel like real participants in the process. In some cases, you might even learn something that could change your evaluation.

Task Discuss about compensating and rewarding store Employees.

Self Assessment

State whether the following statements are true or false:

6. The evaluation process also nips a lot of employment problems in the bud.
7. Performance standards describe what you want workers in a particular job to accomplish and how you want the job done.
8. Unlike performance standards, mission should be tailored to each employee.
9. The evaluation process will seem fairer to your workers if they have an opportunity to express their concerns.

12.5 Compensating and Rewarding Store Employees

Many people are motivated by money—at least for a period of time. But the motivational power of money often wears off as employees simply get used to their current level of compensation. Many studies have confirmed that as long as employees are paid competitively, money is not the main factor that leads to job selection or performance.

Ultimately, most people are motivated more by the work they do and the environment in which they work than by the money they earn. Therefore, the compensation and rewards system you offer to employees should include both monetary and non-monetary ideas.

Utilizing Monetary Compensation

Growing businesses that struggle with cash flow issues and "making payroll," will want to think creatively about how to provide monetary compensation and rewards to their management and staff. When Ewing Kauffman managed Marion Laboratories, he paid his managers, directors, and officers salaries slightly below what competitors were offering, but offered profit-sharing, paid generous bonuses for high performance, and added benefits when the company did well.

Similar techniques are available to you in terms of end-of-year, team-performance, and individual bonuses, profit-sharing, stock options, phantom stock, and stock warrants. All of these plans can have their pitfalls, and all must be tailored to your particular situation. Seek expert assistance from a compensation specialist and a lawyer and keep your plan aligned with your company's values.

Remember, when establishing your compensation and reward policies, employees should be compensated for the work they do at or near competitive salary levels. Also, monetary compensation above and beyond competitive levels may not be motivating if the recipients really value other things, like time with their family.

Growing companies that cannot afford to pay the same salaries as an established corporation may offer their key employees a form of ownership in the company. That way, if the company is successful, the employees will share in the success.

Be careful to avoid these pitfalls:

1. Diluting your controlling interest in the venture
2. Rewarding some people while alienating others who are also productive
3. Prompting the wrong behaviors or the wrong values
4. Diminishing a sense of camaraderie and teamwork
5. Increasing your tax burden
6. Bickering over accounting practices for stating profits
7. A one-compensation plan fits all mentality
8. Enabling disgruntled ex-employees to own significant stock

Compensation systems create consequences—whether they are intended or not. You must make a careful decision about how you are going to pay your employees. Even if you pay straight salary or hourly wages you've still got a monetary compensation system. The right compensation system can go a long way to building the kind of company you desire.

Did u know? By making rewards contingent on performance, experts agree that an organization is likely to increase employee motivation.

Providing Rewards

Effective reward systems include all forms of monetary compensation plus a wide variety of other motivators that are important to people in a work setting. You will be surprised at the benefits your company will reap when you reward good performance with job assignments, recognition, growth and learning, additional responsibility, trust, authority, and autonomy.

The effectiveness of any reward system requires two primary factors. First, the recipient must perceive the reward as a positive event, and second, the reward needs to encourage the desired behavior. The desired behavior must be consistent with the strategic goals of the company. It is your responsibility as the entrepreneur to make sure the reward system is set up to support the right behaviors.

To make this two-part principle work for you, you're going to have to understand rewards from the perspective of your workers, which requires you to spend time with your team and learn what's important to them. Monitor the results of your rewards to see if they're really having the effect you want them to have. Remember, what you perceive as rewarding may not be rewarding to your employees. For example, many companies reward salespeople for their efforts by basing some or all of their compensation on a percentage of the dollar amount of sales revenues. This approach is a proven winner in most cases, but some companies—notably those who want to have their sales people act as consultants to their customers—have found that poorly conceived commissions can push salespeople away from their role as consultants, making it less likely that the client will turn to the salesperson in the future or that big-ticket projects will be developed.

Instead of relying solely on monetary rewards, try some of the following approaches to increase motivation and productivity:

Say thank you: Acknowledge people for their good efforts and superior results. You may be surprised what sincere acknowledgements will do. Consider both public and private acknowledgements but keep your employees' preferences in mind.

Share the big picture: Employees work smarter and enjoy their work more when they know how their job fits into the company's success. Many companies have found success by sharing their financial performance with employees and showing them how they can help improve it.

Treat people fairly: The world isn't fair, but most people hope it will be. Treating people fairly means treating everyone with respect, rewarding successful performance, and critiquing unsuccessful performance.

Create a learning attitude: You will make mistakes as you lead your organization, but that's okay as long as you learn from them. Your team members are going to make mistakes too. Be a role model by discussing your mistakes. In fact, make the discussion of mistakes a regular part of your meetings. The point is not to focus on mistakes but on the lessons learned for future applications.

Consider the following three questions to help you learn from a mistake:

1. What did we do right?
2. What did we do wrong?
3. What can we improve next time?

Using these questions at every staff meeting and at the end of every project will help create an organizational culture comfortable with the truth, ready to acknowledge success, and open to learning and improvement.

Celebrate successes: When the company wins a big contract, finishes a large project, or reaches an important milestone, bring everyone together to celebrate. When individuals or teams do well or reach milestones, acknowledge their results as well. People want to feel part of a successful company.

Increase responsibilities: When people perform well, provide them with opportunities for advancement, increase their responsibilities, allow them more freedom to make decisions, or give them larger portions of the budget to control. Beware not to punish people by overloading them with too much work: and don't assume that everyone will find new challenges rewarding.

Trust and ask for input: When you show others that you trust them, they begin to do things on their own initiative. They create energy for your organization. If you look over their shoulders constantly, you'll get employees who will only do what they are told.

Showing trust means asking for help in making important company decisions. When a major Detroit car manufacturer changed its management approach, one of the workers said, "I've been working for this company for twenty-seven years, and before the recent changes, not once in that time did anyone ask me what I thought should be done. For the first time they are now receiving the benefits of my head, not just my hands."

Avoid micromanaging: Avoid the tendency to be consistently involved in every decision and every task. Remember that any given outcome can be achieved a number of ways. Encourage your associates to experiment by trying different ways to improve a task or solve a problem. Don't micromanage! Agree on the goals and let the employees figure out how to meet those goals.

Rather than spending great energy trying to prove that an employee is wrong and the boss is right, successful entrepreneurs say, "That way is not working; we should try something else." Establishing an experimental, learning attitude can turn early failures into success. An enthusiastic, "We are making this up as we go along" attitude can keep people looking for ways to improve the way they get things done.

Self Assessment

Fill in the blanks:

10. Effective .... systems include all forms of monetary compensation plus a wide variety of other motivators that are important to people in a work setting.
11. The effectiveness of any reward system requires two .... factors.
12. .... work smarter and enjoy their work more when they know how their job fits into the company's success.
13. Avoid the tendency to be .... involved in every decision and every task.
14. Many companies have found success by sharing their .... performance with employees and showing them how they can help improve it.
15. ....compensation above and beyond competitive levels may not be motivating if the recipients really value other things, like time with their family.

Case Study

A Retail Store Management System

Our client, an Ireland based IT Company, wanted a software solution that would enable retail stores to integrate their business processes such as sales, inventory management, order processing etc. into a single centralized unit leading to increased operational efficiency. Based on these requirements, Icreon developed the web based retail store management system. The software can be installed on an Intranet and used by retail stores to manage their day-to-day operations. Real-time sales and performance reports can be generated by the head-office to monitor the performance of all stores.

Business Requirements

Our client required a web based solution that they could market to clients within the retail industry. Stores were to be provided the facility to create and manage a customer database including details such as customer information, their order and credit histories etc. The solution was to provide stores with the ability to manage their inventories send purchase requests to their distribution centers and manage the stock among their various warehouses. Provisions to generate reports such as sales reports, customers etc. were required to be built into the solution. Additionally, the system was to enable stores to create and manage a database of all their employees. The head-office was to be provided with the facility to oversee the functioning of all their retail stores thereby enabling them to obtain a holistic view of their business.

A web based solution to streamline the operations of retail stores.

Benefits

- Provides a means to streamline operations by integrating business processes into a single unit
- Automates the process of tracking inventory
- Enables easy monitoring of stores by the head office
- Increased efficiency by reducing administration costs and improved performance

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Users: The users of the system will be the employees of the company using the application. Access to the various modules of the application will be based on the roles assigned.

Solution: The solution can be used by retail chains to oversee the functioning of their various outlets. Each retail outlet can use the solution to manage their operations independently of the other. However, the head office can oversee the functioning of all outlets and can run sales and performance reports on an individual outlet or collectively for all outlets. The solution has been divided into various modules, these include:

Customers: The details of all customers including personal details, address, communication details, sales person etc., of the retail outlet can be stored. The customer details can be drilled-down to view the details of all orders placed by a specific customer, credit notes, invoices, etc.

Stock: Retail outlets can use the solution to manage the details of the stock available. The system details out the total units of an item in stock, the allocated units and the unallocated units. Stock categories can be defined and items can be added the categories. Details such as product name, code, supplier, re-order level, discount, selling price, etc. can be stored for each item. Multiple items can be grouped together and offered for sale as a package. The price, discount etc. for the package can be defined. A database of suppliers and tax rates can also be created and managed.

Sales: In addition to the details of all customers, all the details confirmed and unconfirmed (i.e. enquires/quotes) orders placed by the customers can be viewed. Each order can be drilled-down to view the customer details, customer's payment history for the order, credit notes (if any) for the order, and the details of the items that were included in the order. While entering the details of the payments received for an order, the gift vouchers and credit notes of the customer can be used against the payments.

Dispatch: Dispatch orders can be created and managed through this section. A dispatch contains multiple dockets each containing the items to be delivered to a specific customer. The user can create define customer dockets and schedule deliveries. The dispatch order can be printed and the status of the order can be updated.

Stock Management: The details of the goods received from the distribution center are displayed. The outlet can define their warehouses and assign the goods received to specific warehouses. They are also provided with options to handle stock transfers between warehouses and stores. Gift Vouchers, for specific amounts, can be created and issued to customers.

Reports: Sales reports can be generated to monitor the performance of the outlet and individual sales personnel within the outlet.

Employees: The outlet can create and manage a database of all its employees. They can also manage an HR calendar.

Administration: The administrator can create and manage user accounts, classify them into groups and grant them access to the various modules of the system. They can also manage the details of the company and view the users' activity log within the system.

One of the main features of the solution was the use of use of ribbon menus to consolidate and display all functions that can be performed in an interface, in a single area, thereby saving the user the hassle of browsing through various menus to locate the desired function.

Questions:

1. What are the benefits of a web-based solution?
2. What is the utility of a web-based solution to the HR department?

12.6 Summary

- Virtually every enterprise finds it necessary to hold 'stocks' (or 'inventory') of various items and materials.
- Store managers are responsible for meeting their region's sales and profit goals each year.
- In order to meet their sales and profit targets, store managers sometimes develop local marketing and promotional plans to increase business.
- A store manager's duties almost always include overseeing the various departments in the store, including inventory management and ordering.
- A store manager's duties also include overseeing the interviewing, selection and hiring of all new employees.
- The store manager is responsible for ensuring that all employee paperwork or hours are approved so that people can get paid.
- The employee recruitment process is one of the more critical aspects of running a successful business.
- The art of recruiting and selecting good employees is one that takes an organizational commitment by the company.
- Performance standards describe what you want workers in a particular job to accomplish and how you want the job done.
- Effective reward systems include all forms of monetary compensation plus a wide variety of other motivators that are important to people in a work setting.

12.7 Keywords

Job Analysis: A structured and defined process of gathering, analyzing, and synthesizing information about a job to identify and describe the duties, tasks, knowledge, skills, abilities and other detailed characteristics necessary to perform the job.

Job Description: A general statement of job duties and responsibilities.

Job Posting: Document used to recruit candidates for a vacant position; e.g., job duties and qualifications, candidate screening methods and the terms and conditions of employment.

Job Seeker: An individual who has indicated an interest in employment by completing a preliminary profile or by submitting an application to the employer.

Performance Standards: Performance standards describe what you want workers in a particular job to accomplish and how you want the job done.

Recruitment Timeline: Schedule outlining the recruitment steps and timeline required to complete each phase of the recruitment process.

Retail stores are businesses that depend on the availability of inventory or merchandise. In fact it may be said that the inventory is the heart of a retail store.

12.8 Review Questions

1. Describe about Store Management Responsibilities.
2. Explain about Recruiting and Selecting Employees.
3. Discuss about Recruiting and Selecting Employees.

4. Describe about motivating and managing store Employees.
5. Explain about evaluating store Employees and providing feedback.
6. Explain about compensating and rewarding store Employees.
7. How you can track Employees Performance? Explain.
8. Discuss about sales and Profitability in Retail Stores Management.
9. Discuss about Store operations.
10. Describe about Customer Service in Stores Management.

Answers: Self Assessment

1. Employee
2. Recruiting
3. Idea
4. Four
5. Managers
6. True
7. True
8. False
9. True
10. Reward
11. Primary
12. Employee
13. Consistently
14. Financial
15. Monetary

12.9 Further Readings

Books

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

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

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http://www.cambridgecollege.co.uk/coursesattachments/stkmod1.pdf

http://highered.mcgraw-hill.com/sites/dl/free/0073381470/601812/Noe3e_Chapter_01.pdf

http://www.leadersbeacon.com/managing-and-motivating-employees-in-the-new-economy/

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Unit 13: Store Design and Visual Merchandising

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Objectives

After studying this unit, you will be able to:

- List types of store layouts
- Assess the concept of space management in retailing
- Discuss the concept of visual merchandising
- Identify the elements of store display

Introduction

In addition to the store location decision, another decision vital decision that is important for a retailer is that of store design. If you look around today, the pace of change is certain to scare you at times. Rapid progress is being made in the way things are bought, made and sold. The consumer today is clearly the King. The choices he has before him today are unimaginable. For a simple toothbrush, he has about 100 choices. From colours to shapes to bristle length's to bristle types.

The places he buys from too are continuously being upgraded. Consumers want touch, feel and experience the product before they actually buy it. The choices that a consumer faces today extend right to the point of purchase. The consumer evaluates the outlets where he purchases and will not buy a product or service unless the retail outlet provides value to the customer.

Good store design creates the vital difference in today's competitive marketplace. Successful companies use design as a powerful tool in their marketing strategy by making better products and building a strong retail identity. Design creates a better environment at the workplace and projects the organizational image. Good design offers many benefits - a vastly improved quality; a defined statement of identity; an optimizing of resources.

13.1 Store Design and Layout

The store design and layout tells a customer what the store is all about. It is a very strong tool in the hands of the retailer, for communicating and creating the image of the store in the minds of the customers. It is the creation of this image that is the starting point of all marketing efforts. The importance of store design needs to be understood form the perspective of the retailer and from the perspective of the consumer.

For the consumer a store needs to be simple to navigate; it must appeal to his sensory perceptions and must create a sense of belonging to a sense of relationship, a sense of security or assurance and a sense of pleasure in the shopping experience. While the merchandise the sales personnel the location and the pricing all work towards creating an image it is the physical attributes of a store which affects the customer's sensory perceptions and makes him relate to the store in a particular manner. They work with the other elements towards creating the desired image or atmosphere.

The environment which is created in the retail store is a combination of the exterior looks of the store, the store interiors the atmosphere in the store and the events, promotions and the themes, which form a part of the retail store.

A well-planned retail store layout allows a retailer to maximize the sales for each square foot of the allocated selling space within the store.

Store layouts generally show the size and location of each department, any permanent structures, fixture locations and customer traffic patterns.

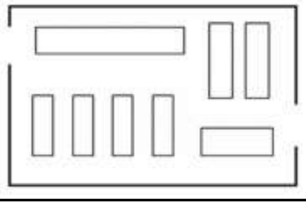
Each floor plan and store layout will depend on the type of products sold, the building location and how much the business can afford to put into the overall store design.

There are a number of different types of layouts commonly found in retail stores. The layout used will be dependent on the width and depth of the product range, the nature of the product categories sold, the type of fixturing used and the constraints of the outlet in terms of size and shape. The objective of a store layout is to maximize the interface between customers and merchandise.

Some of the common layouts are:

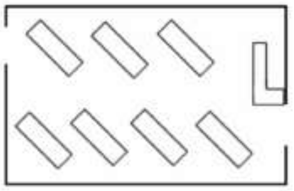
Straight Floor Plan: The straight floor plan is an excellent store layout for most any type of retail store. It makes use of the walls and fixtures to create small spaces within the retail store. The straight floor plan is one of the most economical store designs.

Figure 13.1: A Sample Straight Floor Plan



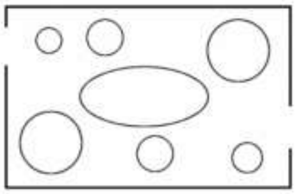
Diagonal Floor Plan: The diagonal floor plan is a good store layout for self-service types of retail stores. It offers excellent visibility for cashiers and customers. The diagonal floor plan invites movement and traffic flow to the retail store.

Figure 13.2: A Sample Diagonal Floor Plan



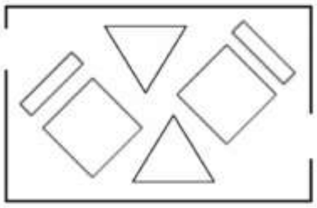
Angular Floor Plan: The angular floor plan is best used for high-end specialty stores. The curves and angles of fixtures and walls makes for a more expensive store design. However, the soft angles create better traffic flow throughout the retail store.

Figure 13.3: A Sample Angular Floor Plan



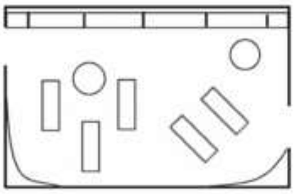
Geometric Floor Plan: The geometric floor plan is a suitable store design for clothing and apparel shops. It uses racks and fixtures to create an interesting and out-of-the-ordinary type of store design without a high cost.

Figure 13.4: A Sample Geometric Floor Plan



Mixed layout: The mixed floor plan incorporates the straight, diagonal and angular floor plans to create the most functional store design. The layout moves traffic towards the walls and back of the store.

Figure 13.5: A Sample Mixed Layout Plan



Did u know? Interior layout is an important factor in the success of a retail store. Sensitivity to cultural values, consumer needs and shopping patterns is critical to the development of an effective layout.

13.1.1 Design in Non-Store Retailing

Although non-store retail formats place some significant restrictions on the use of design in the selling environment, innovative approaches have often paid off as a source of competitive advantage.

Example: When NEXT launched their NEXT Directory it was unlike anything customers had previously encountered in the UK home-shopping market. The format was more like a coffee-table book than a catalogue, with hard covers and a much higher proportion of full-page spreads than used by other mail-order retailers, and the bold and neutral corporate identity of the stores is clearly reflected in the pages. Early editions even included small swatches of material to allow customers to get a 'feel' for the garments prior to purchase. The catalogue was aimed at a more upmarket customer than the typical mail order catalogue profile, with a narrowly targeted, all retailer-branded range of products.

13.2 Objectives of Store Design

Following are the prime objectives of store layout and design:

1. Consistent with retailers image and strategy
2. Positive influence on customer satisfaction and purchase behavior
3. Cost effective
4. Flexible
5. Meet needs of disabled

Tradeoff in Store Design involves:

1. Ease of locating merchandise for planned purchases
2. Exploration of store, impulse purchases

Four Key Elements of Effective Retail Store and Design

The Retail experts, has published *four key elements* of effective store and design: external signage, store layout, internal category management and internal ambiance. Accordingly, "There are many examples of power in a retail store where all the elements of innovative design, format, statement, power merchandising, clear and compelling messaging combine with a unique and consistently delivered sales and service impact."

Tips for Store Design and Layout

1 The signage displaying the name and logo of the store must be installed at a place where it is visible to all, even from a distance. Don't add too much information.

2. The store must offer a positive ambience to the customers. The customers must leave the store with a smile.
   (a) Make sure the mannequins are according to the target market and display the latest trends. The clothes should look fitted on the dummies without using unnecessary pins. The position of the dummies must be changed from time to time to avoid monotony.

3. The trial rooms should have mirrors and must be kept clean. Do not dump unnecessary boxes or hangers in the dressing room.
4. The retailer must choose the right colour for the walls to set the mood of the customers. Prefer light and subtle shades.
5. The fixtures or furniture should not act as an object of obstacle. Don't unnecessary add too many types of furniture at your store.
6. The merchandise should be well arranged and organized on the racks assigned for them. The shelves must carry necessary labels for the customers to easily locate the products they need. Make sure the products do not fall off the shelves.
7. Never play loud music at the store.
8. The store should be adequately lit so that the products are easily visible to the customers. Replace burned out lights immediately.
9. The floor tiles, ceilings, carpet and the racks should be kept clean and stain free.
10. There should be no bad odour at the store as it irritates the customers.
11. Do not stock anything at the entrance or exit of the store to block the way of the customers. The customers should be able to move freely in the store.
12. The retailer must plan his store in a way which minimizes theft or shop lifting.
    (a) Merchandise should never be displayed at the entrance or exit of the store.
    (b) Expensive products like watches, jewellery, precious stones, mobile handsets and so on must be kept in locked cabinets.
    (c) Install cameras, CCTVs to have a closed look on the customers.
    (d) Instruct the store manager or the sales representatives to try and assist all the customers who come for shopping.
    (e) Ask the customers to deposit their carry bags at the entrance itself.
    (f) Do not allow the customers to carry more than three dresses at one time to the trial room.

Atmospherics and Aesthetics

1. The important element of the store interiors is termed as atmospherics and aesthetics. *Atmospherics* is the design of an environment with the help of visual communications, lighting, color, music, and scent to stimulate customer's perceptual and emotional responses and thereby influence their buying behavior. Philip Kotler first introduced the concept of atmosphere. Retailers in India are fast learning the effects of various elements of atmospherics on customers.
2. ***Aesthetics*** on the other hand takes into consideration factors like the actual size of the store, the colors, textures, etc., used within the store to create a particular look and feel for the store. Texture deals with the look and feel of materials. Every material item possesses a texture. Visual texture is the result of light refracted form any surface. Balance on the other hand, is the distribution of weight in a display. Three types of balance exist: symmetrical, asymmetrical and open.
3. Store Interiors are a function of the fixtures, flooring, ceiling, lighting and signage used within the store to create a particular look.

4. Most of the UK's largest retailers have a huge investment or asset tied up in their store portfolio. It is therefore in their interest to keep a high level of customer traffic moving through the store in order to maintain an adequate return on that investment. Good use of design in stores helps keep customers interested in store-based shopping. When consumers have a high level of choice, they will visit places where they feel comfortable inspired and even entertained. Customers are nowadays more design literate; the plethora of interior style media offerings has created a body of consumers that are not willing to tolerate badly designed and poorly decorated space. Competitive threats from home shopping means that the store environment has to have something special to offer, and international competition can also force retailers to pay more attention to their selling environments. Spanish fashion retailers Mango and Zara, who use clean-cut and modern store interiors, have been able to threaten domestic retailers in the UK middle-market women's clothing sector.

Store design has always been used to reinforce other elements of a retail strategy.

Example: Plush carpeting and marble used in a store denotes high-quality merchandise and may suggest a high-price positioning. Strip lighting and dump bins for merchandise brings the word 'bargains' to mind. However, as retail markets mature, the design of retail space is increasingly being used as a means by which strategic aims are reached.

Example: In 2001 Safeway introduced a new store design to reinforce their position as a good-value fresh and quality grocery retailer. Wood panelling, slate tiling and pendent lighting were used in the wines and beers section to create the impression of an upmarket wine cellar; baskets and barrels were used in the fruit and vegetable section to give the impression of 'market freshness' and chalkboard signage to foster the impression of good prices.

It is these small details that help to refocus the attention of the shopper onto revised core values, providing a struggling grocery chain with a new lease of life to compete against other forceful players in the market (Atkinson, 2001).

Self Assessment

Fill in the blanks:

1. The main objective of the store layout is to maximize the interface between .... and ....
2. A .... floor plan is most suitable for a clothing store.
3. .... floor plan is the most functional store layout.
4. Most of the UK's largest retailers have a huge .... or asset tied up in their store portfolio.
5. Store .... has always been used to reinforce other elements of a retail strategy.

Task Discuss about Space Management.

13.2.1 Space Management

There are essentially two ways of presenting merchandise in a store. The first is to place or stack a product on some kind of fixture; stacked merchandise can be neatly arranged or, as in the case of promotional items, it can be 'dumped'. The second way is to hang the product; either directly onto a hanger, or onto a prong, using some kind of specially designed packaging. Having decided on the type of presentation to be used, it may then be necessary to use a specific method of organizing the product presentation in order to provide logic in the offering, or to enhance the visual appeal of merchandise.

Example: Clothes are often presented according to colour themes, and greetings cards are presented according to end use. Other techniques include grouping according to price, technical features and size.

Space Management Objectives

1. Use space effectively whether floor, page or virtual
2. Optimise short- and long-term returns on investment into retail space
3. Provide a logical, convenient and inspiring product-customer interface
4. Make right selection of products available
5. Communication of retailer's brand identity

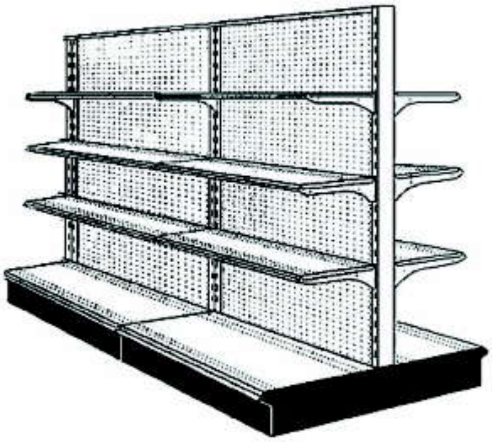
13.2.2 Fixturing

Fixturing is necessary to display merchandise to customers, whilst making best use of the retail space. Fixtures can be obtained from a shopfitting wholesaler, or they may be custom-built to tie into a specific retail design. The following fixtures are commonly found in retail stores: shelving, gondolas railings, four-ways, round fixtures, bins, baskets and tables. The type of Fixturing used will depend on the product and its presentation method.

Gondola Shelving Unit

Gondola shelving units have been around for a very long time. The versatility makes gondolas easy to install and change on a frequent basis. The pegboard backing and shelving comes in several heights and depths. It is also available in a variety of colors, but the most common is almond. Gondola shelving can be used to create end caps, wall units or center aisles.

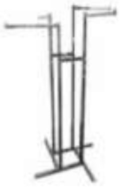
Figure 13.6: Gondola Shelving Unit



Source: http://retail.about.com/od/storefixturesdisplays/ig/Store-Fixture-Photo-Gallery/Gondola-Shelving-Unit.htm

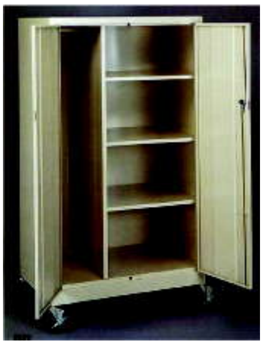
Notes

Figure 13.7 : Four Ways Fixture



Source: http://www.creativedisplay.in/Pages/products.aspx?series=FloorFixture

Figure 13.8 : Office Cabinet



Source: http://allnations.net/furniture/items/cabinets/9550.jpg

In order to create a consistent look within the outlet, it is sensible to choose fixturing that is coordinated in terms of the type of material and style. An array of different types of fixturing may provide flexibility, but it can make a store appear cluttered and untidy. It is generally the merchandise rather than the fixturing that should be noticed, although some fashion stores do use unique designs for fixtures that help to reinforce the retail brand image.

Caution Space management is not just optimisation but should facilitate merchandise promotion.

Box 13.1: Tips for Choosing Customer-Friendly Fixtures

Win customers by using retail display systems that are customer friendly: in other words, harness the powerful psychology of shopping. People love to shop. In fact, a great number of people consider shopping a relaxing leisure activity or even their hobby, with Business Network (BNET) stating that 39 percent people in the United States "love to shop." So, retailers in general have an eager audience that is ready and willing to buy its products – but, they also have significant competition and so they must woo and win the attention of their potential customers.

One key way to attract and keep the attention of shoppers is to create an environment that is conducive to shopping – and one key way to do that is to use compelling, interchangeable store fixtures and retail display systems to keep your store fresh, interesting and appealing.

Here are several more important tips:

1. You can't use yesterday's store fixtures to capture the attention of today's shoppers: An educational site in the United Kingdom – BizEd – published an article titled "The

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Psychology of Shopping." This article reported that retail giants of the 1970s relied heavily upon the philosophy of "pile it high, sell it cheap" and they found success with that philosophy. Since then, though, retailers are using increasingly sophisticated ways to capture the attention of shoppers – which means that you, as a retailer, also need to use contemporary strategies, which include attractive retail fixtures, to keep customers satisfied.

2. ***Choose retail displays and fixtures that are uniquely suited to your target market:*** Here's a great example of how not to structure your retail space. A blogger at a site for petite female shoppers was complaining that retailers – meaning those who cater to the petite – use retail displays that are not within comfortable reach of its customers. Now, does that make any sense? Of course not. Take a detailed look at your own store. In what ways are the store fixtures and retail displays that you're using not compatible with your customers' needs?

3. ***Design your space using retail display systems that make it easy for your customers to keep shopping***: The BizEd article also pointed out how successfully some retailers lay out their stores using retail displays that allow and even encourage a customer to keep browsing. Nothing blocks the customers from this path. So, again, take a look at your own store. What store fixtures or other items make it difficult for your customers to continue to navigate through all of your products? Remember, too, that an average person's field of vision tends to be around 170 degrees. Keep that in mind as you design your retail space.

Finally, here is a fun quote from a 1924 publication about the psychology of clothes – and, really, it also relates to the way you lay out your retail displays! According to this publication, "dress has a tremendous influence upon individuals, upon both the wearer and the beholder. The consciousness of being becomingly and fittingly dressed for the occasion, whatever that occasion may be, strengthens and insures one's self-confidence tremendously, gives poise and self-command, encourages the brain to forge forward, emboldens the timid tongue, and quickens one's wits along the avenues of resourcefulness, inventiveness, graceful speech, and tact. In fact all of one's faculties are stimulated and inspired by the consciousness of being properly attired."

Yes, dress does have a tremendous psychological impact on the people wearing them – and the way in which you arrange your retail fixtures have a tremendous psychological impact upon the customers who walk inside your front door. Make your retail space a friendly welcoming place through the strategic use of contemporary compelling store fixtures today.

Note Sensitivity to cultural values, consumer needs, and shopping patterns is critical to the development of an effective layout.

13.2.3 Displays

Fixturing is generally concerned with the housing of merchandise in what is sometimes termed 'on-shelf' displays. This is the routine display of goods from which customers are expected to make their selection.

Notes

Creating Attractive Displays

Creating an attractive product display can draw the customer in, promote a slow-moving item, announce a sale, or welcome a season. If your store front is fortunate enough to feature one or more windows, then you have one of the most proven (and least expensive) forms of advertising at your disposal.

Some stores located in a mall or other structure may lack windows, but don't despair. There are many places throughout the store to build beautiful displays. Take a look at the flow of traffic in your store. Are there any areas that are a focal point for customers?

Your local community may have individuals or visual merchandising companies you can hire to dress your windows, but if you're concerned with saving money, the following tips will help you create an attractive display.

Visual Display Tool Box

Before designing a product display, put together a visual display tool box to keep on hand. By having all of these items in one location it will save time in actually preparing the display.

1. Scissors, Stapler, Two-Sided Tape, Pins
2. Hot glue sticks and glue gun
3. Monofilament Fishing Line
4. Tape Measure
5. Razor Blade/Utility Knife
6. Hammer, Nails, Screwdriver, Screws
7. Notepad, Pencil, Marker
8. Signage, Sign Holders
9. Glass Cleaner/Paper Towels
10. Props (Non-merchandise Items)

Take time to plan the display. Consider what you want to accomplish, develop a budget and determine a central theme. You may even want to sketch your display on paper. Gather your visual display tool box, the merchandise and any props. Make sure all materials and location (tables, windows, racks) are clean. Choose a slow time of the day or build the display after hours.

Elements of Effective Visual Merchandising

1. ***Balance:*** Asymmetrical rather than symmetrical balance with the display.
2. ***Size of Objects:*** Place the largest object into display first.
3. ***Color:*** Helps set mood and feelings.
4. ***Focal Point:*** Where product and props/signage and background come together.
5. ***Lighting:*** Should accent focal point, if possible.
6. ***Simplicity:*** Less is more so know when to stop and don't add too many items.

Once the display is finished, add appropriate signage. Take photos of the display and keep record of the product sales during the display's existence. Save your information in a file folder for easy reference. By documenting its success, you can recreate the display next year or if it flops, you can make sure you don't repeat the same mistakes.

Like any other aspect of retailing, creating an attractive display takes a little skill and lots of trial and error. As your store changes, so will your opportunities for visual displays. Keep working at designing eye-catching and innovative ways to make your retail store profitable through visual merchandising.

'Off-shelf' or feature displays are used to create a visual impact with the merchandise, or to show how the product might be used. They might also be used to introduce and promote new products or to support supplier promotions or trade initiatives (such as Fair Trade). As they are not intended to be used in the routine selling of the products they can be artistically arranged and situated in parts of the store that are not useful for selling purposes, such as high up on walls or within an alcove (although the closer to the selling stock the better, in order to encourage customers to respond to the display). Often, more than one product is used in an off-shelf display.

Example: To suggest complementary purchases or to show the depth of offer in a particular product category; mannequins are used for displaying complementary or coordinate clothing products in this way.

Feature displays often follow a theme to add interest within the selling environment. Themes for displays include seasonal, color and lifestyle orientations. Within the calendar year, there are a number of seasonal opportunities over and above the general 'weather'-dictated seasons of Spring, Summer, Autumn/Fall and Winter.

Example: New Year (celebrations and resolutions), Valentines Day, Mother's Day, Easter, Father's Day, Holidays, Back to School, Halloween and Christmas. Lifestyle themes can take an extensive variety of forms, and follow some kind of preference in terms of personal consumption or time expenditure. Lifestyle themes that retailers could use include sporting interest or participation, health interests, musical preference, home entertaining, hobbies, occupations, and so on.

Another type of off-shelf display is the promotional display. This is a technique frequently used in grocery stores and features a display comprising a large amount of stock of one item, often housed on a dedicated fixture. This type of display is often found at the end of the gondola (on 'end caps'), where the sheer volume of one product item catches the shopper's attention.

For many retailers, the most important display space is their windows, as they are the means by which customers are attracted into the store. The window communicates the type of product the retailer sells and is also used to indicate market positioning. Window displays can be open, where the customer can see behind the merchandise into the store, or the window may have a closed back which allows the retailer to create a more elaborate display. Destination stores like department stores often use closed window displays, but many retailers are of the opinion that the backed window can act as a barrier between customer and store, and therefore is less welcoming to customers. Diamond and Diamond (1999) suggest that effective displays follow one or more of the general principles of design, which are: balance, emphasis, proportion, rhythm and harmony.

Shelf Display Ideas

The way your living space is decorated can leave a lasting impression on your guests. Shelves can provide a distinctive space to display your accessories and collections. Even if you're just using shelves for books, there are ways in which they can be artistically arranged. Change your

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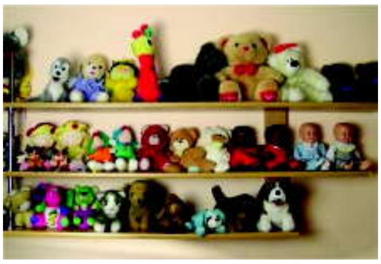
shelves around and make an impact. Many times, no additional purchases are necessary and you can achieve decorating success with items you already own.

Figure 13.9 : Onshelf display



Source: http://img.ehowcdn.com/article-new/ehow/images/a06/2s/nf/shelf-display-ideas-1.1-800x800.jpg

Black and White Photographs

To use shelves in a way which is subtle, yet still provides a big impact, hang black or dark wood shelves on a colored wall. Print family or decorative photographs in black and white. Place the photographs in black frames with white matting. Don't be afraid to use different frame widths and styles within this color scheme. Arrange the photographs on the shelf. The more brightly colored the wall, the stronger the black and white photographs will stand out.

Color-Ordered Books

If you have a large collection of books and are looking for a distinctive way to organize them, arrange them by the primary color of the spine. Place all the reds together, the oranges together, continuing in this pattern for all colors you have. Another option for those who like the look of books, but may not own a large collection, would be to purchase used books and remove the dust jackets. Paint the spines with spray or acrylic paint and line up. Some color combination ideas to consider are white shelves with a row of gold books; blonde wood shelves with blue or green books and black shelves with silver books.

Task Discuss about Visual Display Toolbox.

13.2.4 Space Allocation

The allocation of space to products within a retail outlet links the designed selling environment to the financial productivity of the retail space. Space management has to consider the long-term objectives concerning market positioning and customer loyalty, alongside short-term objectives concerning stockturn, sales and profits. A retail outlet that looks beautifully spacious will not stay that way if there are not enough products selling to sustain the business, yet if the store is full to bursting with merchandise some customers may choose not to enter the foray. Retail space is costly and increasingly scarce and so whatever the visual merchandising strategy is, an adequate return must be made.

Retail Space Allocation

To determine the optimum stock mix, retailers must first identify their core merchandise - that is, the merchandise that makes the statement that defines the range. Then, using this core stock

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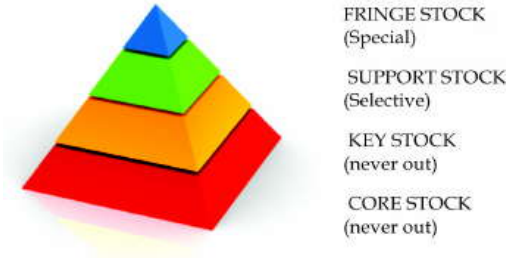
as a foundation, they can build the rest of the range to complement and augment it as shown below:

Figure 13.10: Retail Space Allocation



Source: http://www.thetemplargroup.com.au/article-stock/retail-space-allocation

The skill lies in getting each of these categories of stock in the correct depth and breadth.

Sales versus Space Allocation Analysis

One simple analysis that can be performed to see if your store is maximising its productivity is to conduct this relatively simple review.

Step 1: From your sales history (six or twelve months) conduct a sales analysis of sales coming from all departments as a percentage of the whole store.

Step 2: You can then do a similar analysis of the space allocations per department as a percentage of the entire store (just count linear metreage for speed's sake).

Step 3: Compare the percentages against each other to see if there are glaring anomalies. The simple toy store example below displays a format you could use.

Allocating Space to Individual Products

1. Products, like categories are often allocated space on the basis of sales.
    (a) *Advantage:* product is less likely to sell out
    (b) *Disadvantage:* may not be profitable
2. Different sales figures have advantages and disadvantages
    (a) historical sales
    (b) market share
    (c) projected sales

The usual method for measuring retail performance is according to the amount of sales (or profits) generated by a given amount of space. Sales per square metre are a commonly used method of assessing the value of retail space, but linear and cubic measures can also be appropriate. Space planning needs to take account of not only the amount of space allocated, but also the quality of space.

Example: The space nearest the front of the store and the till areas are usually the most productive. Certain practicalities also have to be taken into consideration, such as the size and weight of the merchandise.

Space-allocation decisions usually need to be made at various levels of merchandise classification, for example at departmental level, product category level and SKU (stock keeping unit) level. Retailers usually have some historical data that can act as guidance in the allocation of space, for example a similar store's performance, or historical department sales figures, but the need for the maximization of financial objectives means that space planning and allocation is under constant review and refinement at individual store level. The allocation of space can be geared towards different objectives, for example achieving the highest sales turnover, maximizing product profitability or maximizing customer satisfaction, and a retailer may be faced with making trade-off decisions in order to achieve those objectives. Those products that generate the highest sales value may only achieve low profit margins, but concentrating on high-profit items may put unnecessary emphasis on products that are less of concern to customers, thereby decreasing their levels of satisfaction. The matrix suggests alternative space allocations according to whether a product has high profitability or high sales.

Space Allocation Systems

1. ***Advantages:***
   (a) optimises space productivity
   (b) maintains consistent corporate identity
   (c) allows retailers to experiment with visual display
   (d) helps to achieve efficient assortment (see ECR)
   (e) moving towards store specific planograms
2. ***Disadvantages:***
   (a) costs
   (b) not appropriate for small retailers or where displays are frequently changed (e.g. independent fashion retailer)

Consideration of the financial implications of allocating amounts of space must be conducted within the framework of an outlet plan that is geared to making the shopping experience of the customer a satisfactory one. Too much emphasis on the retailer's financial objectives could result in a store being laid out illogically and make products difficult to find. Long-term profitability is dependent on customer satisfaction and loyalty, and so space planning must incorporate factors other than individual product sales and profitability. Aspects such as seasonal goods, the physical size and weight of the product, the type of fixturing required and the need to display complementary goods in close proximity should all have a bearing on the overall plan.

The complexity of space-allocation decisions has encouraged the use of computer-based systems as a retail management aid. Modern space-allocation systems are able to synthesize a plethora of quantitative and qualitative data such as product costs, sales forecasts, product sizes, complementary purchasing potential, fixturing details and so on. The output of these systems is a space-allocation plan or planogram that shows exactly how the products should be displayed on the fixturing, including the number of facings of each product that the customer should see.

Although space-allocation systems have resulted in retailers using space in a much more productive way, they do have limitations. Most large multiple retailers have a portfolio of stores that differ in size and shape, and so unless that retailer has access to individual store input data and the system is capable of producing customized plans for each store, the planogram will have to be subject to a certain degree of interpretation at store level. Many retailers have tackled this problem by grading their stores by size and producing a set of plans for the different store grades. However, grading by size is a very crude method of assessing different stores. Recent advances in micro-marketing have shown that the profile of a store's catchment area gives a better indication of the type and amount of merchandise required than the size of the outlet (Ziliani, 2000). As retail management-information systems become increasingly sophisticated, this type of store performance analysis and customer-profile customization will become more widespread. Space allocation systems are expensive, and may be beyond the means of the smaller retail organization.

Self Assessment

Fill in the blanks:

6. Gondola, shelving, bins and basket are common types of .... found in retail stores.
7. .... shows exactly how the products should be displayed on the shelves.
8. Although .... systems have resulted in retailers using space in a much more productive way, they do have limitations.
9. The .... of space-allocation decisions has encouraged the use of computer-based systems as a retail management aid.
10. Long-term .... is dependent on customer satisfaction and loyalty, and so space planning must incorporate factors other than individual product sales and profitability.

13.3 Visual Merchandising

Following section discusses aspects visual merchandising:

13.3.1 Visual Merchandising and Displays

Visual merchandising is concerned with presenting products to customers within the retail space. It is a term sometimes used as an alternative to merchandise display, but these days is generally understood to have a wider definition encompassing all activities concerned with the presentation of the product within the retail outlet, including the choice of store layout, the method of product presentation, the choice of fixture and fittings, the construction of displays, and the use of point-of-sale material. It also has a very close connection with the allocation of space within the outlet. Visual merchandising is more important in some retail sectors than others.

Example: Fashion and home furnishing retailers have always devoted considerable resources to displaying products in a visually appealing way, whilst discount grocery retailers are much more concerned with space efficiency. However, the need to adapt to style-conscious twenty-first-century customers is as relevant to the way products are presented as the way a store environment is designed.

The implementation of a visual merchandising strategy within a retail business is not standardized across the industry. Lea-Greenwood (1998) found that visual merchandising could be the responsibility of directors of corporate communications, promotion or marketing, whilst some retailers gave the function the status of a specific directorship. Often a multiple retailer will employ a team of regional visual merchandisers who rotate through a number of stores in a given area. The creative aspect of the visual merchandiser's role attracts people with a design training or background, although specific training for visual merchandising is becoming more common. One of the advantages of using a centralized team is that the retail brand identity can be controlled across all outlets, and visual merchandising can tie in with other corporate communication themes and messages. There is, however, a danger that the centralized approach may prevent the retailer from adapting to local themes, preferences and competition in the visual merchandising activity.

Did u know? Retail theory has distinguished two types of displays visual merchandising and on-shelf merchandising.

13.3.2 Exterior Design and Layout

The exterior of most stores includes the fascia, mentioned above, the store entrance, the architectural features of the building and windows. The contribution of these parts of a store's exterior to an overall design can vary in importance according to the type of store format and the products on offer.

Example: Superstores, hypermarkets and category killers rarely use window displays, but have bold fascias and easy to access entrances. Standalone stores may have to conform to strict architectural guidelines imposed by government planning authorities, whilst the centre management team may control the exterior of stores in a planned regional shopping centre. Entrances can be designed to be open and welcoming, or closed and exclusive. A key consideration for retailers is the need to be accessible for all members of society.

Store design involves formulating and structuring all elements of the physical environment. The storefront includes all aspects of the front/exterior of the store. Elements include the marquee (or exterior sign), entrances, windows, banners, planters, awnings and lighting. As major vehicles for communicating image, storefronts create differentiation among retail stores. This is especially true in shopping centers and malls in which a store struggles for visual identity among all the others that surround it.

The architectural style of a retail business suggests the nature, quality, and price of the merchandise as well as the company's status in the marketplace. Exterior visibility for Customers travelling by foot or by automobile is essential. A unique building design and distinctive landscaping help retailers capture the attention of potential customers.

The architect must balance the aesthetic factors that affect image with the complex operational needs of the retail business. Economic considerations include future maintenance and energy or utilities requirements, as well as construction and materials costs.

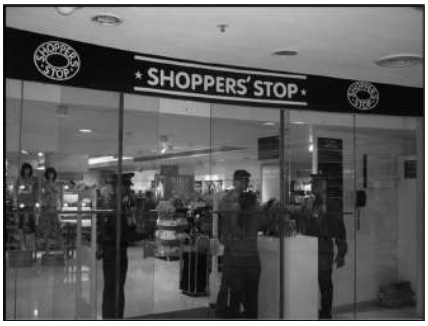
Three other important functional aspects of exterior design are customer visibility, store security, and potential for efficiency among staff and associates.

A variety of approaches to store exteriors are available to retailers. Modular or prefabricated structures are pre-manufactured, fitted with electrical and plumbing fixtures, and transported to be secured on a slab or attached to other units. These buildings are most commonly found in a self-service format, such as a convenience store. Chain store companies with freestanding stores may use uniform prototypes of different sizes, each having standard specifications, to achieve cost advantages through mass production.

Retailers entering shopping malls often find that the developers establish the rules for storefront design to ensure overall image consistency. An exterior design may be subject to the approval of many agencies, including zoning boards, fine arts commissions, and residents' associations as well as developers and other retail tenants. The aesthetic benefit of consistent design is evident in the traditional marketplaces that have been carefully restored.

Signs and windows also are important components of the exterior appearance of a retail business. Like other elements of the design mix, they help the retailer establish an identity in the minds of target customers.

Figure 13.11: Exterior Design



13.3.3 Interior Store Design and Layout

Interior design involves all components of the store interior, including fixtures, graphics, flooring, ceiling, lighting and other visual elements. Of all the elements of store design and visual merchandising, interior design has the greatest capacity to convey store image and create certain moods and emotions in buyers.

Basic interior design begins with such items as the width of aisles, the treatment of pipes and vents, the decoration of walls, and the style of lighting fixtures. All these elements contribute to customers' perceptions of and responses to the store.

Displays inside the store should relate to the displays seen in the windows. Good display effects should continue inside the store to move customer traffic through the store. The aisles, the signs that direct the customer, the walls, and the interior displays are most important to the total visual concept of the store. Each department, shelf, counter, ledge, case, and furnishing in addition to the display areas requires analysis in executing display techniques. The furnishings of the store should be attractive and placed so as to enhance the visual impact on the customer. There should be updating and improvements in fixtures to avoid a stagnant, dated effect.

Example: The seasons of the year usually dictate visual changes.

Fixtures/Display areas

Display fixtures include racks, stands, tables, shelves, and other devices for physically presenting merchandise. They may be floor fixtures-round, rectangular, or box-racks, cubes –or wall fixtures such as brackets, shelves, etc.

In addition to holding merchandise and displaying it, store fixtures influence a store's interior design, from its traffic flow to the image it projects to customers.

All furnishings of the store should be placed to enhance the visual impression each floor presents. They should be arranged both to sell the most merchandise and to be pleasing to the customer.

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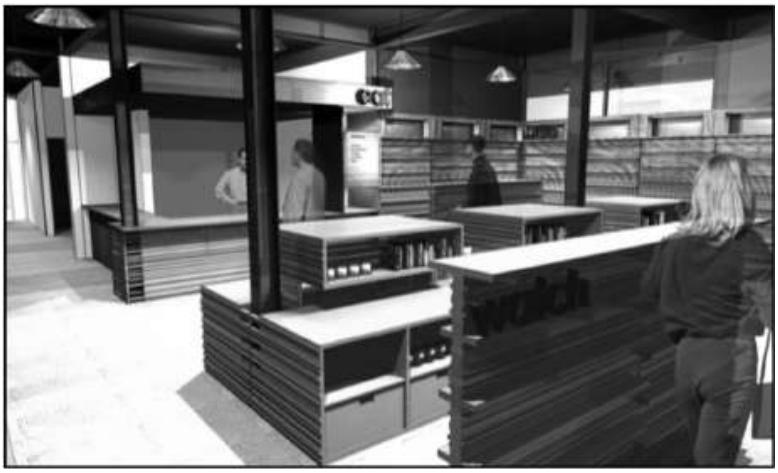
Figure 13.12: Display Area in a Store



Corner Shops

These shops, as well as other marked-off areas with distinctive décor, are employed by store engineers to relieve the monotony of departmental furnishings.

Shelves

Obviously, shelves are necessary to store stocked merchandise. They are poor display areas, however, and should be hidden whenever possible by walls, curtains, and so on.

Counter and Table Display

These sell merchandise more readily than do shelf displays, because they are located in front of the stock areas, bringing the goods nearer to the customer and allowing the customer to usual design for counters and cases. However, rounded, oval, and surrealistically shaped counters not only ease the flow of traffic through a store, they appear less regimented and do not present hazardous sharp edges to the customer. They are a pleasant change from the square design.

Placing store furnishings at an angle to the structural lines of the interior is an arrangement that will increase sales at no added expense to the store. If all aisles are straight from front to back, the customer moves too quickly through the store. Even a slight deviation from the usual parallel placement will lead people in a more comfortable and leisurely path, slowing them down and inviting them to take notice of the surroundings. Likewise, when customers are leaving, counters carefully arranged at angles to the wall will seem to hold them back, to delay their departure. Each hesitation on the part of the passerby is an opportunity for interior displays to make a sale.

Ledges

The tops of shelves sometimes serve as areas for display. They necessarily follow the set structural lines of a department. Ledge areas may be made very attractive with the addition of decorative pieces for seasonal promotions. Because ledges with shelf space below them are above the comfortable range of vision, constant care must be exercised in the placement of merchandise. Unsightly portions of it, such as chair seats, shoe soles, wrong sides of materials, or unfinished backs of stoves or refrigerators, should not be visible to the customer’s eye and must be camouflaged with decorative effects.

Merchandise walls

Imagine a customer standing in the entrance to a store, taking in the "view." Wherever that customer looks the background will be a merchandise wall. Merchandise walls form the total background of the store.

Types of merchandise walls:

1. Those that house merchandise and display that merchandise using face-outs
2. Those that house merchandise and display that merchandise using grids

But these walls can be treated in many ways to create a strong store "look" and provide an interesting, colorful background for the store's other fixtures and displays.

Color and Lighting

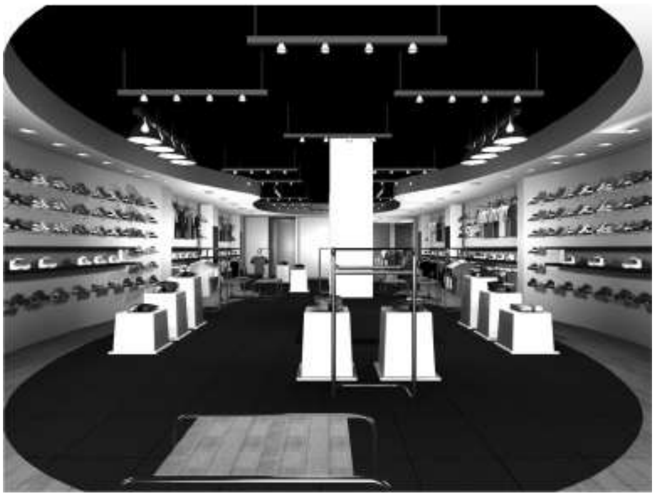
Color and lighting are critical to an ambiance that projects a store's image and attracts customers. Used strategically, color can influence the perception at a room's size complement the merchandise on display, state a as lion position, and attract a particular clientele. The psychological effects of color have been well documented.

Example: Blue, green, and violet project elegance and orange, yellow, and red convey intimacy.

Appropriate lighting in turn, enhances the effects of interior color.

Lighting is essential to creating interest, shaping moods, and stimulating customer buying. Compared to other interior design elements, it has a very potent, immediate effect. Its functions include the illumination of space and merchandise, the accurate rendition of color, and the use of contrast to direct customer attention and movement. Merchandise may be lit directly through color and intensity or indirectly through surface highlighting, the degree and type or lighting needed depend on the merchandise to be presented. Spotlights emphasize key promotion, displays; lights of varying intensity draw shoppers to particular areas. In fitting rooms and mirrored selling areas, lighting must be designed to flatter customers.

Figure 13.13: A Store with Innovative Lighting



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Sound and Aroma

Sound is an important design tool because of its ability to affect buying behavior. Music in particular helps create a retail environment in which sensory satisfaction brings relaxation and a willingness to purchase, Programming can be used thematically to reinforce the merchandise or it can be used to attract the target customer group.

Music may also be used strategically to obscure other sounds or enliven an oppressively silent atmosphere. In price-positioned discount stores or supermarkets, promotional and informational announcements to help spur sales frequently interrupt background music.

Even aroma is a potential component, Pleasurable scents add to a store's atmosphere, stimulating customers' appetites and encouraging them to buy. The aromas of breads, pastries, chocolates, and coffee can be an extremely effective selling tool. Other products that may be enhanced through aroma are leather clothing and luggage, flowers and houseplants, tobacco, and cosmetics. And, of course, the primary method of marketing fragrances is in-store demonstrations of the scents.

Task Suppose you are going to set up a departmental store. Prepare a design of your store focusing on layout, fixtures and displays.

Self Assessment

State whether the following statements are true or false:

11. It is very important to have an eye catching exterior design as it captures the attention of the onlookers.
12. The retailers inside a mall are free to design their exteriors in whichever way they want.
13. The display inside the store should be different from the display in outside window as customers have already seen the items on window display.
14. Shelves are necessary but should not be visible to the customers, therefore should be hidden.
15. Colour of the walls and fixtures can be instrumental in enhancing the beauty of merchandise on display.

Case Study

The Art of Visual Merchandising

Visual Merchandising is the art of displaying merchandise in a manner that is appealing to the eyes of the customer. It sets the context of the merchandise in an aesthetically pleasing fashion, presenting them in a way that would convert the window shoppers into prospects and ultimately buyers of the product. A creative and talented retailer can use this upcoming art to breathe in new life into his store products. Passion for design and creativity are essential to be a good visual merchandiser. A perfect design process and the ability to create ideas that are different are required. Awareness of happenings in fashion world is needed so as to keep up-to-date with the dynamics of the market constantly.

Contd....

Visual merchandising includes window displays, signs, interior displays, cosmetic promotions and any other special sales promotions taking place.

Components of Visual Merchandising

There are certain things which a retailer needs to take care while proceeding with the process of displaying his products. These components when combined together in a proper ratio will make a successful outcome.

Make Merchandise the Focal Point

The main goal of display is to showcase the products within the overall display area. Customers give three to five seconds of their attention to window display. The retailers visual message should be conveyed to the customer in that short period of time. It should not be like an unsuccessful TV advertisement, where the product is forgotten altogether and only the concept of the commercial remains in the mind of the viewer. The arrangement of window display should go with the product and should not suppress them to make it discernible to the eye.

Right Choice of Colors is Vital

Color is one of the most powerful tools in the Visual Merchandising segment. It is a visual perceptual property. Colors can be associated with emotions, special occasions and gender. It attracts attention and pulls more customers into the store. A retailer has to focus on the right choice of color that would match with the theme of display. It is not possible to satisfy everyone all the time, but it is possible to cultivate the taste of customers gradually and purposefully. A right choice of colors in the display items can turn walkers into stoppers and significantly convert them into customers. It is therefore mandatory to choose the right color for the right theme of display. A Halloween display would require black color in the display theme. Valentines theme should be ruled by red color supplemented with pink and white. A display of baby accessories should reflect light shades of pink and blue colors. A Christmas display should contain colors of red, green, gold and silver.

Display Themes to Appropriately Support the Product

A theme is a display of sale items of similar categories e.g. a display of kitchen accessories. Its essential to have themes for all retail displays. They can be romantic, wild, or capricious, and capture peoples imaginations.

A good theme will lure the customer with a shopping mood into the store. Themes mainly depend upon the retailers imagination and creativity. Focusing on the right theme rather than creating a display with expensive raw materials is the key to successful window display. A shoe store theme can be a group of elves buying shoes. A theme for display of casual wears can be a group of mannequins sitting casually at a get together in different poses. Related themes will tug the heartstring of the customers and will pay off.

Display should Complement the Retailers Other Strategies

The content of the display should complement the in store environment and other marketing strategies of the retailer. If the retailer has a specific logo, the colors of the display can reflect the same color of the logo. For example, McDonalds display, the clown is of the same color, red and yellow as in their logo.

Cleanliness

Neat and clean arrangement is the foundation of an inviting a successful visual display. A beautiful display can be ruined by a cracked sign holder or an unclean display environment. Effective cleaning schedule of showcases and display fixtures is required.

Contd....

Change the Display Settings in Frequent Intervals

Changing the arrangement of the displays in regular intervals will initiate new interest about the products in the minds of the customer. By designing a planogram and activating changes frequently one can thus be a proactive retailer.

With globalization and the retail boom, visual merchandising is growing in leaps and bounds. It is not simply concerned about decorating a store beautifully; but must also symbolize the brand keeping the target audience in mind.

Questions:

1. What is visual merchandising?
2. What are the important components of visual merchandising?

Source: http://www.fibre2fashion.com/industry-article/6/547/the-art-of-visual-merchandising2.asp

13.4 Summary

- Good store design creates the vital difference in today's competitive marketplace.
- The exterior of most stores includes the fascia, mentioned above, the store entrance, the architectural features of the building and windows.
- The contribution of these parts of a store's exterior to an overall design can vary in importance according to the type of store format and the products on offer.
- There are a number of different types of layouts commonly found in retail stores. The layout used will be dependent on the width and depth of the product range, the nature of the product categories sold, the type of fixturing used and the constraints of the outlet in terms of size and shape.
- Store design has always been used to reinforce other elements of a retail strategy.
- Although non-store retail formats place some significant restrictions on the use of design in the selling environment, innovative approaches have often paid off as a source of competitive advantage.
- There are essentially two ways of presenting merchandise in a store. The first is to place or stack a product on some kind of fixture; stacked merchandise can be neatly arranged or, as in the case of promotional items, it can be 'dumped'.
- The second way is to hang the product; either directly onto a hanger, or onto a prong, using some kind of specially designed packaging.
- The interior of a store can be viewed in a similar way to living space.
- It comprises ceiling, walls, flooring and lighting, but instead of furniture a retail outlet houses fixtures for the presentation of merchandise, and fittings for equipment such as tills.

13.5 Keywords

Ledges: A horizontal projection forming a narrow shelf on a wall.

Off-shelf Displays: They are used to create a visual impact on customers, their place is not fixed.

On-shelf Displays: They are put up to display merchandise to customer, in a retail space.

Planogram: Schematic drawing of shelves and fixtures that helps in making the optimal use of available space.

Store Layout: Plan or design of display of merchandise available in the store.

Visual Merchandising: Art of implementing effective design ideas to increase store traffic and sales volume.

13.6 Review Questions

1. What do you mean by store layout? Discuss various types of layouts.
2. Write short note on visual merchandising.
3. What are objective of a store design?
4. What is the importance of exterior design of a retail store?
5. Discuss the elements of an interior store design.
6. What are the different types of layouts commonly found in retail stores?
7. Discuss design in non store retailing.
8. What is space management?
9. What is the need for having space management?
10. What are fixtures? Why they are needed?
11. Discuss some of the commonest types of fixtures we used in an office.
12. What are displays? Why they are used?
13. How will you account for a space allocation?
14. Being an expert in layout and design of retail store make a report on the various essentials of a good store design.
15. What are the influencing factors to retail store layout and design?

Answers: Self Assessment

1. Customers, Merchandise
2. Geometric
3. Mixed
4. Investment
5. Design
6. Fixtures
7. Planogram
8. State allocation system
9. Complexity
10. Profitability
11. True
12. False
13. False

14. True
15. True

13.7 Further Readings

Books

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

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http://www.fibre2fashion.com/industry-article/6/547/the-art-of-visual-merchandising1.asp

Unit 14: Information System in Retailing

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- 14.8.5 Future Trends in E-tailing

14.9 Summary

14.10 Keywords

14.11 Review Questions

14.12 Further Readings

Objectives

After studying this unit, you will be able to:

- Explain the importance of IT in retailing
- Trace the integrated systems and networking
- Discuss the Marketing Information System
- Create strategic advantage through supply chain and information system

Introduction

Retail management involves running a store where merchandise is sold. Retail management information systems include the use of hardware, software and procedures to manage activities such as planning, inventory control, financial management, logistics and point of sale transactions. Use a retail management information system in your business when you need to manage your store, finances and inventory from one office.

Information Technology (IT) refers to the management and use of information using computer-based tools. It includes acquiring, processing, storing, and distributing information. Most commonly it is a term used to refer to business applications of computer technology, rather than scientific applications. The term is used broadly in business to refer to anything that ties into the use of computers.

Mostly businesses today create data that can be stored and processed on computers. In some cases the data must be input to computers using devices such as keyboards and scanners. In other cases the data might be created electronically and automatically stored in computers.

In this unit, you will learn about the role of information technology in retailing.

14.1 Importance of IT in Retailing

Information technology is one of the greatest enablers of the Collaboration between the vendor and Retailer. Wal-Mart, the largest company in the world with more than 2,700 stores and $ 217 billion in revenue last year, gets a major competitive advantage from the efficiency of its electronic product information, ordering, supply-chain management and delivery systems. It possess the influence to get manufacturers into collaborative E- business, because it can represent 5% to 30% of a manufacturer's total business. Wal-Mart requires every manufacturer to manage its own in-store inventory and uses EDI networks and its private collaborative trading hub, Supplier Link, to consolidate global purchasing. It brings 10,000 suppliers online to bid on contracts and communicate sales and inventory data. Wal-Mart also uses its networks to manage its Supply Chain and Logistics. In this kind of an environment, greater data transparency and information sharing as well the speed of response cement the supplier-retailer relationship. The same is the case with 7-Eleven Inc., with over 30,000 suppliers in all-different sizes. Even in the fashion conscious sectors of Retailing, the use of IT helps. Payless' sources nearly 80% of the 250 million pairs of shoes sold through its 5,000 stores from Asia. This represents challenges in a style-oriented business. The shoe business is very fashion driven. Many products have short lifecycles like 13 weeks. Payless is concentrating on a core vendor/core factory programme to achieve production efficiencies and stay ahead of fashion trends. The speed of interacting, enabled by it helps in competing with similar stores in the shoe business.

Computers have replaced cash registers for billing. The bar coded products using UPC and EDI are scanned for billing. The importance of information technology in retail sector stems from the importance of data. Data is nothing but information which aids decision-making.

The use of technology aids data collection. Data can be collected about consumers, frequency of their buying. This can help a retailer in distinguishing customers. The use of information technology serves as a basis for integrating the functioning of various departments. With an increase in the number of outlets, collecting and analyzing information becomes indispensable. Technology plays crucial role in this regard. Technology has been applied to some of the unique requirements of the retail business like the need for product identification, the need for quick billing and settlement of bills electronically and specialized logistics applications.

Modern technology is making information required for retailing decisions ever more accessible. It is possible to track customer buying behaviour and better analyse and understand what customers want. The integration of various modern technologies is allowing companies to access valuable information.

Did u know? The importance of information technology in retail stems from the importance of data. Data is nothing but information that aids decision making.

14.2 Strategic Advantage through Supply Chain and Information System

E-SCM covers all aspects of a business, from the stage of raw materials right on to the end user. Each and every aspect of the cycle is covered by the E-SCM be it sourcing, product design, production planning, order processing, inventory management, transportation, warehousing and customer service. The E-SCM manages the flow between the different cycles and spans across the different departments and companies involved and the applications used by these departments and companies should be able to talk to each other and understand each other for the E-SCM to work properly.

In a traditional company which does not employ E-Commerce 17%-50% of the price of its products is got from the cost of just moving the products from their manufacturing plant to shop shelves. This includes the margin of the retailer and of the distributors. Most of the cost is attributed to logistics and holding inventory. An efficient E-SCM can bring down the prices of products by as high as 40% and it does so by eliminating overstocking by reducing the average inventory levels to what is needed and by so doing lowering warehousing costs and transport costs since there won't be any unnecessary trips when every stage of the supply chain is in synch with each other. This will not only give the company a cost benefit but will also result in improved customer service levels, improved competitiveness and an overall gain in profitability for the organisation.

In an E-SCM application system communication between the different departments or different companies is in real time and data can be integrated with back office systems thus reducing paperwork. Using the Web to eliminate paper transactions can generate substantial savings of cost and time. It facilitates the removal of purchase orders, delivery confirmations, bills of material and invoices. The switch away from paper can also speed up response and improve communications with those in different time zones or who work outside normal office hours. Another significant potential benefit is a reduction in the errors associated with activities such as re-keying data and receiving orders by telephone calls and handwritten faxes.

To leverage the full benefits of e-logistics in an E-SCM and achieve full customer satisfaction visibility throughout the entire supply chain must be completely transparent. This is achieved through the movement of information in tandem with goods and services. Customers thus have complete real time consignment status information over the Web, while at the same time suppliers and delivery companies can save on the salary previously devoted to employees answering queries on order status.

E-SCM's main strategic advantage lies in its ability to allow real time exchange of information to take place between the company's employees and their trading partners, namely customers, distributors and manufacturers, regarding product configuration, order status, pricing and inventory availability. Such functions improve order accuracy and provide 100% order fulfilment through accurate inventory information. This real-time data enables users to make informed ordering, purchasing and inventory decisions and thereby enhances the quality and scope of customer service.

In addition to increasing productivity and reducing overall operating expenses, E-SCM maximises selling opportunities by capturing valuable customer information-buying patterns, frequency of visits, preferences, order history and then uses this information for up-selling, cross-selling and promotional opportunities. E-SCM provides the tool sets to get new business by reaching out to customers that you never could before.

A strategic IS has been defined as "the information system to support or change enterprise's strategy". Strategic management is the technique that an organization can plans the strategy of its future operations; in the other word a SIS is a system to manage information and assist in strategic decision making. The term strategic points to the long-term nature of this mapping exercise and to the large magnitude of advantage the exercise is expected to give an organization (Turban 2006). Four critical factors in developing and strategic IS are Initiation, data collection, strategy formulation and short-term development. These factors are used to prioritize proposed ISs, so that those giving competitive advantage to the organization can be highlighted for immediate development (Karababas et al, 1994). IT contributes to strategic management in many ways (for addition information see Kemerer, 1997, and Callon, 1996). Turban et al (2006) introduce these eight factors:

1. ***Innovative applications***. IT creates innovative applications that provide direct strategic advantage to organizations. For example, Federal Express was the first company in its industry to use IT for tracking the location of every package in its system. Next, FedEx was the first company to make this database accessible to its customers over the Internet. FedEx has gone on to provide e-fulfilment solutions based on IT and is even writing software for this purpose (Bhise et al., 2000).
2. ***Competitive weapons.*** ISs themselves have long been recognized as a competitive weapon (Ives and Learmouth, 1984, and Callon, 1996). Michael Dell, founder of Dell Computer, puts it bluntly: "The Internet is like a weapon sitting on the table, ready to be picked up by either you or your competitors".
3. ***Changes in processes.*** IT supports changes in business processes that translate to strategic advantage (Davenport, 1993). For example, Berri is Australia's largest manufacturer and distributor of fruit juice products. The principal goal of its enterprise resource planning system implementation was "to turn its branch-based business into a national organization with a single set of unified business processes" in order to achieve millions of dollars in cost-savings (J.D. Edwards, 2002a). Other ways in which IT can change business processes include better control over remote stores or offices by providing speedy communication tools, streamlined product design time with computer-aided engineering tools, and better decision-making processes by providing managers with timely information reports.
4. ***Links with business partners.*** IT links a company with its business partners effectively and efficiently. For example, Rosenbluth's Global Distribution Network allows it to connect agents, customers, and travel service providers around the globe, an innovation that allowed it to broaden its marketing range (Clemons and Hann, 1999).
5. ***Cost reductions.*** IT enables companies to reduce costs. For example, a Booz-Allen & Hamilton study found that: a traditional bank transaction costs $1.07, whereas the same transaction over the Web costs about 1 cent; a traditional airline ticket costs $8 to process, an e-ticket costs $1 (ibm.com/ partnerworld/pwhome.nsf/vAssetsLookup/ad2.pdf/$file/ad2.pdf). In the customer service area, a customer call handled by a live agent costs $33, but an intelligent agent can handle the same request for less than $2 (Schwartz, 2000).
6. ***Relationships with suppliers and customers.*** IT can be used to lock in suppliers and customers, or to build in switching costs (making it more difficult for suppliers or customers to switch to competitors).
7. ***New products.*** A firm can leverage its investment in IT to create new products that are in demand in the marketplace. According to Vandenbosch and Dawar (2002, p. 38), "The

redefinition of ICI's role not only generated much higher margins for the business, it also gave ICI a much more defensible competitive position".

8. ***Competitive intelligence.*** IT provides competitive (business) intelligence by collecting and analyzing information about products, markets, competitors, and environmental changes (Guimaraes and Armstrong, 1997).

Note Information systems are being used in supply chain to promote strategic agility.

14.3 Flow of Information and Products in Supply Chain

The design of information flow in supply chains has traditionally followed the physical flow along the chain (Lewis and Talalayevski, 2004). Sub-optimal supply chain performance, in many cases, has been the result of poor information sharing. Adopting advanced information systems, which enable efficient information sharing between the members of supply chains and over supply chain phases, may however change the situation. Instead of suffering from scarcity of data, the challenge for companies is to achieve good quality information (Wagner, 2002) and to decide which data can be utilized in decision making to improve supply chain performance and which data can be ignored.

Information flows in the supply chain are bidirectional. From an SCM perspective, it can be argued that managing the information flows is the most critical of the activities described in this article. This is because the flow or movement of materials or money is usually triggered by an associated information movement. Effective management of material and money flows is, therefore, predicated upon the effective management of the related information flows. It is not surprising, therefore, that recent years have seen a huge interest in this area in the literature (see, for example: Evans et. al., 1993; Mason-Jones and Towill, 1998). The bullwhip effect to which Forrester (1958) referred is essentially the product of poor information management in the supply chain and leads to a requirement to hold excessive inventory levels. The corollary of this is that if levels of demand visibility are high throughout the supply chain then inventory levels can be reduced. As Christopher (2005) notes, good information effectively becomes a substitute for high levels of inventory.

Recent years have also seen rapid developments in ICT used to facilitate SCM. McDonnell et al. (2004) proposed a taxonomy of supply chain ICT solutions which identifies four primary categories as follows:

1. ***Point solutions:*** used to support the execution of one link (or point) in the chain (e.g. warehouse management systems or WMS);

2. ***'Best of breed' solutions:*** where two or more existing stand-alone solutions are integrated, usually using middleware technology;

3. ***Enterprise solutions:*** based on the logic of enterprise resource planning (ERP), these solutions attempt to integrate all departments and functions across a company into a single computer system that can serve all those different departments' particular needs; and

4. ***Extended enterprise solutions (XES):*** refers to the collaborative sharing of information and processes between the partners along the supply chain using the technological underpinnings of ERP.

The move away from point towards enterprise solutions in many ways reflects the shift from internal and functional, to external and process, management orientations in recent years (as highlighted earlier). Other technologies, in particular electronic data interchange (EDI) and the Internet, have enabled supply chain partners to use common data. As noted by Christopher (2000), this facilitates supply chain agility as companies can act based on 'real demand, rather than be dependent upon the distorted and noisy picture that emerges when orders are transmitted from one step to another in an extended chain'.

Effective management of supply chain flows provides the key to putting the philosophy of SCM, based around the concept of integration, into operational practice. It highlights the specific activities that need to take place, and places a strong emphasis on the need for an integrated and holistic approach to their management. A stepwise decomposition of the buy-make-store-move-sell model, as carried out in the SCOR model, identifies in more detail what these activities are and how they interact. Indeed, most of the activities typically seen by companies as being part of SCM relate to the planning and control of these elements of supply chain functionality (Fawcett and Magnan, 2002). In this context, "planning and control" is concerned with material, money and information throughout the supply chain.

The centrality of information management in effective supply chain design is a central theme in contemporary thinking. Recent years have seen the development and proliferation of a range potentially valuable ICT tools. The key is to view ICT as a tool which has the capability of enhancing supply chain integration levels. For this reason, technology has become a critical SCM enabler in that it enables or facilitates higher levels of both internal and external integration.

Task Discuss about Flow of products and Information in Supply Chain.

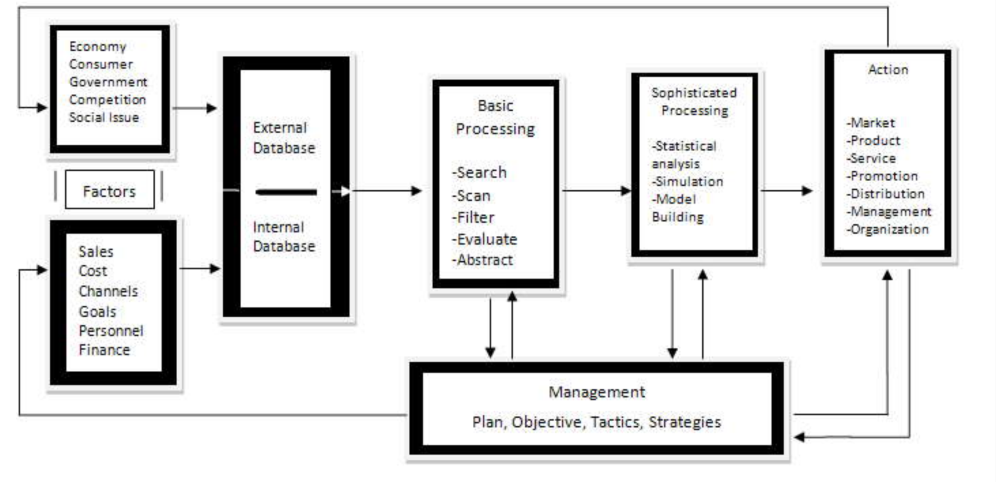
14.4 Integrated Systems and Networking

The technology has now become an essential tool for retailing. Some of the important applications of technology in retail sector are as follows:

14.4.1 Marketing Information Systems (MIS)

The term 'Marketing Information Systems' refers to a programme for managing and organising information gathered by an organisation from various internal and external sources. MIS assesses the information needs of different managers and develops the required information from supplied data in time regarding competition, prices, advertising expenditures, sales, distribution and market intelligence, etc. Information sources for MIS include a company's internal records regarding marketing performance in terms of sales, and effectiveness and efficiency of marketing actions, marketing databases, marketing intelligence systems, marketing research, and information supplied by independent information suppliers.

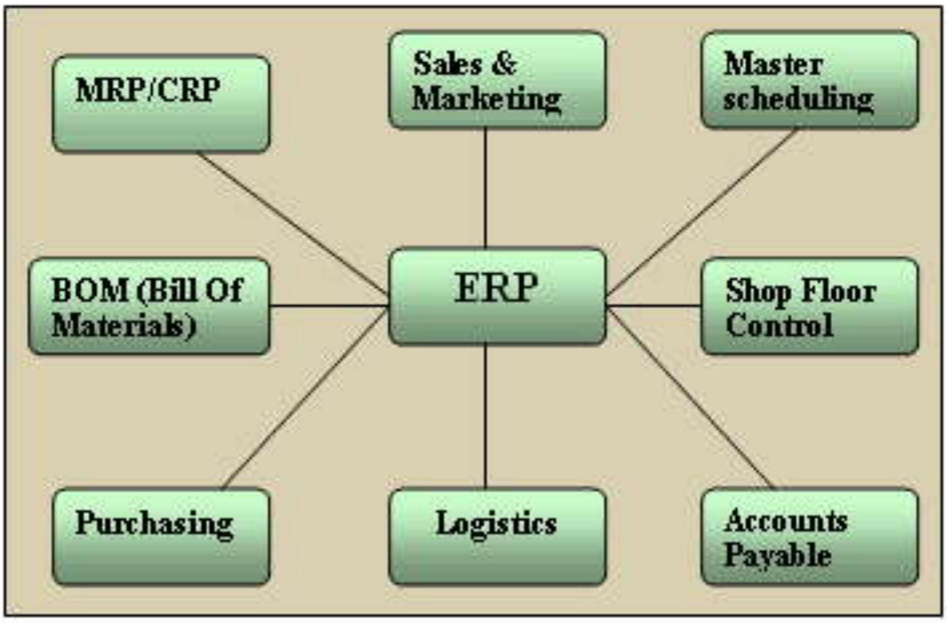
Figure 14.1: Elements of MIS


Economy
Consumer
Government
Competition
Social Issue
Factors
Sales
Cost
Channels
Goals
Personnel
Finance
External Database
Internal Database
Basic Processing
-Search
-Scan
-Filter
-Evaluate
-Abstract
Sophisticated Processing
-Statistical analysis
-Simulation
-Model Building
Action
-Market
-Product
-Service
-Promotion
-Distribution
-Management
-Organization
Management
Plan, Objective, Tactics, Strategies

14.4.2 Retail Management Information System

This includes the use of hardware, software and procedures to manage activities such as planning, inventory control, financial management, logistics and point of scale transactions.

Figure 14.2: Components of ERP


MRP/CRP
Sales & Marketing
Master scheduling
BOM (Bill Of Materials)
ERP
Shop Floor Control
Purchasing
Logistics
Accounts Payable

14.4.3 Radio Frequency Identification Device (RFID)

In a retail store, RFID assists in inventory management. All items in a retail outlet sport read-only tags that contain the product code and its description, including the batch number, expiry date and price. The shelves, exit gates, and warehouses are fitted with sensors that read the information from the RFID tag and help in updating the inventory system in real-time. This way it helps in total asset visibility and tracks the inventory stocking. It also ensures better process control for products in the store. In warehouses and container depots, containers are marked with

RFID chips that contain details of origin, destination, and other details. Entry and exit gates, vehicles, and cranes are fitted with an antenna that senses the RFID tags, and records and updates the system to check for any deviation in the schedule. With precise tracking of the location of pallets and containers within the warehouse, it is easy to pinpoint unscheduled movements. The system also considerably helps reduce costs and time for check-in and check-out.

Did u know? Marketing Information system supplies three types of information - Recurrent, Monitoring and Requested information.

14.4.4 Networking

In the world of computers, networking is the practice of linking two or more computing devices together for the purpose of sharing data. Networks are built with a mix of computer hardware and computer software.

Networks can be categorized in several different ways. One approach defines the type of network according to the geographic area it spans. Local area networks (LANs), for example, typically reach across a single home, whereas wide area networks (WANs), reach across cities, states, or even across the world. The Internet is the world's largest public WAN.

Self Assessment

Fill in the blanks:

1. In a retail store, ... assists in inventory management.
2. .... management information systems support distributed stores by linking them.
3. .... is the inter-organisational exchange of business documents in structured, machine process able form.

14.5 Electronic Data Interchange

Electronic Data Interchange (EDI) is the inter-organisational exchange of business documents in structured, machine processable form. Electronic data Interchange can be used to electronically transmit documents such as purchase orders, invoices, shipping bills, receiving advices and other standard business correspondence between trading partners. EDI can also be used to transmit financial information and payments in electronic form. Payments carried out over EDI are usually referred to as Electronic Funds Transfer (EFT). EDI should not be viewed as simply a way of replacing paper documents and traditional methods of transmission such as mail, phone or in-person delivery with electronic transmission. But it should be seen not as an "end" but as a means to streamline procedures and improving efficiency and productivity.

Use of EDI in retail business reduces costs. It also strengthen the relationship between the retailer and the supplier. A supplier can spot trends in purchase and accordingly realign its production if there is an EDI exchange between a retailer and the supplier.

Retail businesses have been exchanging documents electronically for over 30 years. The first standards were laid out during the 1980's with the formation of ANSI X12 and the VICS EDI Retail Users Group. During the 1990's, the major retail hubs encouraged participation throughout the supply chain by supporting standards, offering education through trading partner conferences, providing implementation assistance via the value added networks, and encouraging compliance via chargebacks for non-compliance.

Although there has been much talk of replacing EDI with XML or VAN's with the Internet, the reality of today's EDI implementations is that the original standards are still viable and heavily implemented throughout the retail industry. Millions of EDI transactions pass between retailers and their supply chain every day. Some of these transactions travel through traditional Value Added Networks, some are exchanged over the Internet, and some are sent with direct connections.

Task Discuss about Bar Coding.

14.6 Bar Coding

Bar coding is a proven technology for automated data collection needs of the business. In general terms, "a barcode actually contains any given alpha numeric information encoded in the form of bars and spaces using international symbologies which are like language of the barcode." On retail products, the barcode normally contains the product ID (e.g. item code, product code etc.) which is required to be entered into the computer system to update the data at the time of billing, receiving or dispatch. With the barcode in place, the data is fed into the system automatically by scanning the barcode using a bar code scanner instead of punching the same through a keyboard.

The fast checkout and reduced queues attracts more customers and ensures that customer visit the store again and again. The Bar Code scanners at point of sales help in the elimination of queues with fast checkout by automating the data entry into system. The barcode scanner is basically a device which plugs into a computer system just like another keyboard and feed the barcode data into a computer. The benefit is that the data fed is nearly 100 per cent accurate and the whole Item code is scanned in a fraction of second. The scanners come in lots of varieties to meet varied needs of retailers. From handheld to hand-free, 1D Single Line or Omnidirectional, 2D, corded and cordless, the scanners are available for almost all business needs. Hand held barcode Scanners, which are sometimes also called "barcode gun", can be a Laser or CCD (Charged Couple Device) scanner. Hands Free Scanners are normally omnidirectional scanners and are essentially laser scanners. These scanners are mounted either on the table top or below the table glass to allow the user to scan the barcode from any direction for faster operations.

In addition to Bar Code Scanners, the other barcode hardware for POS includes thermal/thermal transfer printers and Portable Data Terminals (PDT). These PDTs, with high memory and with latest Windows-based or Palm-based Operating Systems for complex mobile computing applications, are also called Mobile Computers.

The printer is used to generate on-demand bar code labels (in case the items are not pre-barcoded) for received goods. Unlike normal document printers, Bar Code Printers utilise rolls of labels (die-cut, fanfold etc.) to generate the labels on adhesive labels. These printers include the logic to generate the barcode for any given data which would be read by using barcode scanner. The printers can connect to any software and enable the barcode printing for items directly from the software application.

Barcodes solutions play an important role in utilising customised in-store marketing, increasing up-selling and cross-selling opportunities, quickly locating merchandise, easily monitoring inventory and checking prices. The state-of-the art solutions based on barcode technology enables retailers to improve the customer's experience at the primary point of decision – the selling floor.

The Portable Data Terminals (PDT) allow the retailers to take the inventory status by scanning the items barcodes without need of counting them.

Electronic Data Interchange (EDI) is the inter-organisational exchange of business documents in structured, machine processable form. It has its own memory, where it can store the collected data and display the summary to user.

Did u know? The newest source tags are paper-thin and easily integrated into automated production processes. These tags are applied in primary packaging (or within or on the product itself – for example, incorporated into woven garment tags) and under labels on bottles.

14.7 Customer Database Management

A database refers to the collection of comprehensive information about customers and prospects such as demographic and psychographic profiles, products and services they buy, and purchase volumes, etc., arranged in a manner that is available for easy access and retrieval. Databases allow marketers access to an abundance of information, often through a computer system such as sales reports, news articles, company news releases, and economic reports from government and private agencies, etc., that can be useful in making various marketing decisions.

A simple purchase at any retail store can enable the store to gather a vast amount of information about its customers and products. The use of systems to organise, retrieve, search and manage that data is termed as database management. Data can be with respect to products, customers, vendors and suppliers or a combination of them put together.

The elements of database management are data warehousing and data mining. Let us take the example of a customer who buys a pair of cotton chino trousers from a large department store chain in Mumbai. The customer is also a member of the loyalty programme run by this chain and visits the store frequently.

By swiping the customer loyalty card at the time of purchase, an entire information system starts functioning. The store's computer sends the information to the company's central computer, which usually hosts the data warehouse. From this data warehouse, the organisation is able to retrieve data that will give important information about the purchase made, the total number of purchases made, the colour, size and demographic data of the customer.

The data warehouse is at the core of the system, which enables the retailer to gather, manage and utilise the information needed by him to remain competitive in today's fast changing marketplace.

The manner in which companies do business and interact with their customers has changed rapidly over the years. It is now necessary to track changes in consumer demand, as consumer loyalty to a retail store cannot be taken for granted. Taken from the term mining, which means digging out something from the earth, data mining refers to the extraction of data for specific applications with the use of technology. The concept of data mining is not new, as for many years, statisticians, used to mine data manually. Technology has enabled the automation of the data mining process and has integrated it with a data warehouse, which enables the availability of data in a manner relevant for various business. Data mining can help extract information from a database that the user did not know existed. Finding a relationship between variables and customer behaviors that is non-intuitive is what data mining hopes to do.

The information unearthed by data mining can also help the Customer Relationship Management Process (CRM). By identifying specific market segments and their buying behaviour, it is possible to develop campaigns, promotions and offers which are aligned to the needs, wants and attitudes of the customer, thereby offering value as perceived by the customer.

Did u know? Electromagnetic book theft prevention systems were first introduced to libraries during the 1970s.

14.8 Electronic Retailing

E-tailing is the selling of retail goods on the Internet. Short for "electronic retailing," and used in Internet discussions as early as 1995, the term seems an almost inevitable addition to e-mail, e-business, and e-commerce. E-tailing is synonymous with business-to-consumer (B2C) transaction.

E-tailing began to work for some major corporations and smaller entrepreneurs as early as 1997 when Dell Computer reported multimillion dollar orders taken at its Web site. The success of Amazon.com hastened the arrival of Barnes and Noble's e-tail site. Concerns about secure order-taking receded. 1997 was also the year in which Auto-by-Tel reported that they had sold their millionth car over the Web, and Commerce Net/Nielsen Media reported that 10 million people had made purchases on the Web. Jupiter research predicted that e-tailing would grow to $37 billion by 2002.

E-tailing has resulted in the development of e-tailware - software tools for creating online catalogs and managing the business connected with doing e-tailing. A new trend is the price comparison site that can quickly compare prices from a number of different e-tailers and link you to them.

E-tailing is gaining ground. In the year 2003, clothing and apparel segment clocked online revenues to the tune of $ 3.6 billion. Online retailing is classified into three main categories:

1. ***Click:*** The businesses that operate only through the online channel fall into this category. Prominent examples in this category include: Dell, Amazon.com and e-Bay.
2. ***Click and Brick:*** The businesses that use both the online as well as the offline channel fall into this category. Common example includes: Barnes and Noble's.
3. ***Brick and Mortar:*** This is the conventional mode of retailing. The businesses that do not use the latest retailing channels and still rely upon the conventional mode belong to this category.

E-tailing offers the consumers huge amounts of information in the form of web sites with useful links to similar sites that allows consumers to compare products by looking at individual items. The convenience of online shopping is unmatched indeed. Shopping out of your home or office reduces the stresses of waiting in lines and dealing with irritating sales people. However, E-tailing causes problems with fit, since the consumer cannot try the items on. Return policies may also act as turn offs and items can be difficult to return. The shipping and handling costs may turn the customers away. e-tailing requires technology savvy customers and this puts a limit on its potential reach. We can see that E-tailing is emerging as an interesting phenomenon in the retail industry that is on a rise despite the disadvantages associated with it.

According to a recent study:

1. Presently there are 4 million Internet users in India and the number is growing.
2. Computer Hardware, cinema, Books, Music cassettes/CDs, travel tickets and gifts are sold through the net in a big way.

14.8.1 Role of Web

It is a well-known fact that the retail industry always works on very narrow margins and the key to survival lies in optimization of resources both in space and time dimensions as well as maximization of customer satisfaction. Access to timely and even real-time information to a wide variety of channel and trading partners, sales personnel, line managers, store managers etc. is the key to achieving this. Web services technology holds out a lot of promise for the retail industry in this respect. It is a platform-neutral, easy to deploy set of standards for achieving business data and process integration, without going for proprietary point to point connections. It promises to connect the information providers and information consumers across a wide variety of platforms, devices and on an on-demand basis. Being based on service-oriented architecture (SOA) principles it can also form the enabling service interface layer for other emerging technologies like BAM, BPM, mobile and RFID.

Task Discuss about the Role of Web.

14.8.2 Online Retailing - Advantages

E-tailing offers unique advantages to the consumer that no other form of retailing can match. The hypertext nature of the medium allows for more flexible forms of transactions (growth of C2B and C2C) to flourish. It allows for easier comparisons across broad product categories with the evolution of shopping bots and similar mechanisms. The medium also offers flexible/ dynamic pricing mechanisms to the consumer. These evolutions reduce any friction in the online market place and stimulate the use of the web as a retail environment. In the long-run, this will benefit the marketers as well as the consumers. Further, this will penalize the marketers who thrived in market places that had entry barriers in the form of a lack of freely available information. Earlier, such a situation restricted the customers in making informed choices and led to inefficient pricing and localized monopolies.

Reasons for e-tailing coming up as a hot avenue in the retail sector can be attributed to multiple factors such as:

No Real Estate Costs

E-tailing does not require a retailer to invest in warehouses, showrooms or other commercial properties at prime locations. They operate through their web sites and thus save drastically on the real estate costs. The real estate costs in the metropolitan cities can be prohibitively high. Moreover, maintenance costs of a virtual store are negligible in comparison to a physical store.

Easy and Comfortably

The Internet offers easy and comfortable access to all the required information by a customer. Over the Internet, product information is just a few clicks away, easily accessible from the comfort of a home. Traditional retailing is quite cumbersome in contrast to e-tailing. It involves frantic search for the required product, running up and down the retail store, asking the poorly trained store assistants for help. The process involves significant wastage of valuable time. Simply put, shopping on the Internet for fifteen minutes is equivalent to a two-hour trip to the mall. Consumers prefer to save their precious time so that they can better utilize it.

Customer Interaction

The greatest benefit of online commerce is its ability to interact with the customers. Such an interaction allows the retailers to reach the individual customers and react appropriately to their responses. Interaction acts as a vital tool for mass customization. The common examples include online marketing of books, flowers, software and education. This has also led to greater satisfaction among the online buyers. According to a research agency, 81% of the buyers were found to be highly satisfied with their online purchases.

Mass Media

A supermarket is limited in its area of operation. It caters to a specific geographical location such as a city and/or its suburbs. However, a web site is globally accessible leading to a worldwide reach and an increased potential customer base.

Search Option

With web search capabilities (which need further development) it is easier to find the particular types of goods required by a customer. The consumer decides what he wants to buy rather than the retailer offering what he wants to sell. This ultimately translates into consumer empowerment.

User Friendly

Customers can execute transactions via the same medium the information is provided, so there is no disconnect between the desire to purchase and the ability to purchase. (Payment schemes are still evolving and therefore this advantage is likely to become more apparent in the future.)

Effective Price Discrimination

E-tailers can use price discrimination in an effective and efficient manner. E-tailers can use previous transactions to identify the likelihood of products being purchased at certain price points and use this information for price discrimination.

Customized Product Placement

E-tailers can change the online placement/display of a product based on the previous transactions so to increase the visibility of goods that the user is more likely to buy based on the previous encounter at the time purchase. This allows a contextual design of placement to ensure conversion of a visit/hit to the web site into a sale.

Global Reach

Customers have a much wider choice at their fingertips (a variety of e-tail sites to choose from etc.) In this way, the web creates a global market place that brings together multiple consumers and retailers.

Notes

14.8.3 Factors to be Considered in Developing Website

An evaluation of the following is importants while considering developing a website.

Goals and Objectives

It is absolutely necessary to identify your goals to be able to create a website that will rightfully and successfully serve its purpose. Make a list of items that you aim to accomplish through the website. Short term and long term goals must be taken into account; both will be useful for further development and adaptation of the website design. Having clear and outlined goals at the start will be useful in identifying if you have achieved your goals, the rate of which you have progressed, and what is in need of further advancement.

Target Audience

Just like every business needs to identify their target market, you need to identify your target audience. They are the people whom you expect to bring traffic and revenue to your website. Your goals will have an effect on who would most likely visit your website. You also need to know what common characteristics your target audience would have in order to specify what they need that you can give satisfaction to. Would your website be aiming to connect to an adolescent, to an adult, or to both?

The Content

After specifying your goals and identifying the targeted audience, the next step is to assess what content your web site should have. Create a list of contents that would appeal to your target audience then gather the data. Sort out the contents according to your audience's wants and needs. It is advisable to experiment or do a survey to find out if your content satisfies the needs of a focus group that matches the characteristics and needs of your targeted audience. Each content should be categorized under what need it will fulfil and what page of the website it shall be included. Content planning and organization is where you should put ample time and effort into conceptualizing and creating.

Browser platform

Different browsers have numerous compatibilities and restrictions. A web site that is primarily designed for internet surfers will dictate the use of XHTML 1.0 format, a display resolution of 1024 x 768, and CCS Level 1. The Internet Explorer (IE) is not compliant to W3C standards hence unlike Mozilla Firefox or Opera. A W3C compliant browser will most likely increase the possibility of more site visitors and broaden your options in what scripts or programs to use in for design. The browser can also restrict what image file formats you may be able to use for your website.

After carefully considering the previously mentioned points, you can now begin to document the actual design and structure of your website. Considering what extent of end user interaction is also important. Do a second survey with the control group and gather data on how the website faired in satisfying their needs and wants and what points or areas should be improved. Apply the necessary pages then publish your website. If you follow these guidelines, you will have more chances of having a successful web site.

14.8.4 Limitations of Web

Most of the retailing ventures on web have not been as profitable as they were expected to be, the primary reasons were:

1. ***Security issues:*** Security issues hold the center stage when it comes to consumer concerns while shopping through the online media. A lack of trust and privacy concerns prevents a lot of consumers from making online purchases. Consumers are also concerned with the use of their personal data provided during the online transactions.
2. ***Customer retention:*** In e-tailing, an increase in the customer retention by 5% leads to a corresponding increase in profits by 25%. Most of the people buying on the Internet do so out of curiosity and this makes a repeat purchase highly unlikely.
3. ***Unsuitable for certain product categories:*** In case of product categories that require relatively higher customer involvement, the e-tailing route is found to be grossly inadequate in providing sufficient information to the customers. Examples include retailing of products like clothes, cosmetics etc. Most customers are comfortable buying books and music on the Internet because the information required for making a purchase and the customer involvement is low. However, in case of a blue Trouser, the customer may want to know things such as: Which shade of blue is it? How does it feel on the skin? How easily does it crease? The traditional retailing does not suffer from such a problem. In the non-standard product categories, the Internet offers limited amounts of crucial information to the customer. In such cases, only the seller knows about the true quality of the trouser and this leads to an 'information asymmetry'.
4. ***Shopping is still a touch-feel-hear experience:*** Some do not suffer from 'time-poverty' and shopping is still considered to be a family outing. Hence this type of an environment creates a problem of customer retention.
5. ***Complicated medium:*** Ease of use is a problem, as the web design may suffer from high complexity bordering on total chaos in some cases.
6. ***Navigation hiccups:*** E-tail stores do not have standardized designs in comparison to the physical retail stores and product catalogs. Therefore different user behaviors (navigation schemes) need to be learned for each e-tail store. This is a temporary issue as the evolution of the web continues.
7. ***Website design flaws:*** Graphic presentation and aesthetics may not be as compelling for a web site as in case of a physical retail store or a product catalog. This is a temporary issue that may resolve with the evolution of the web design.
8. ***Limited access to the Internet:*** Not all customers have access to the web, as they do to the postal system. This is a temporary issue as the evolution of the web continues.

14.8.5 Future Trends in E-tailing

The investment and improvements in the communication infrastructure will lead to the mass offering of electronic services in the home from several appliances. Established appliances, including the television and telephone will be equipped to provide simple access to electronic products and services. Furthermore, the increased power and portability of computers will facilitate easy, carefree, and daily use of electronic shopping options.

Consumers

As e-shopping becomes the most sensible alternative to procuring needed goods and services, consumers will abandon their traditional views of shopping. No longer will a routine trip to a supermarket or mass retailer, such as Wal-Mart, satisfy the e-consumers expectations. The effort of the trip will require an experience that one may find in the most expensive stores of Beverly Hills. For example, the King of Prussia Mall in Pennsylvania contains a Bose® outlet, which also houses a Starbucks coffee shop. The "sipping" room is enhanced with music supplied through Bose audio products and innovations, such as speakers as small as a Rubik's Cube, but with the sound of a much larger unit.

Brick and Mortar Retail

This new shopping experience segues into the changes required by suppliers. As stated above, retailers and manufactures will have to rethink their physical selling strategies. Existing retail shops will not survive if they fail to adapt the changes in consumer needs and behaviors. Stores may become a place to showcase new products and services that will be purchased later electronically. However the opposite pattern may initially be an even more important vehicle for retailers. Shoppers will use the Internet to quickly gather product information, including price, to save time in comparison shopping and unsuccessful outings due to lack of stock. Once a product and location decision has been made, the consumer will load up the kids into the SUV and venture in the brick-and-mortar world of shopping.

e-Marketing

In time, however, the dominance of electronic purchasing is inevitable. Suppliers should bet their lives on it, especially if the product is not particularly differentiated or unique. Marketers must rethink their strategies and target audience. Mass marketing will not have the same appeal to the individual consumer. Marketers must utilize the massive databases that will be built through consumer "clicks" on the Internet, to personalize company advertising efforts. Developers of their company's e-shopping technology must also do extensive research on how consumers use the Internet and how they search for products. Where traditional media has a generally passive audience, the Internet is more proactive in its use. It will take more effort for companies to place their product where the consumer will encounter it. Instead of a mass bombing the, which occurs in television advertisements, Internet marketing must be like a smart-missile that can anticipate and intercept the consumer's product searches.

Suppliers

Manufactures and retailers must also evaluate their relationships. "Manufactures have spent the past twenty years dominated by their retail customers." The chain of products to consumers has been drastically altered already. Manufactures are no longer separate from their consumers. They have new opportunity to establish a direct link with the end-consumer companies, such as Dell Computers, have proven that direct selling to the consumer is more efficient and satisfying to the customer. The only advantage of a retail electronic shopping site is the collection and convenience of many products in one location or site. Manufacturers can still fight back by forming joint web-ventures. The retail store may eventually be the biggest casualty of the new technology. It may one day be painfully ironic to a company like Wal-Mart, who utilized EDI and other electronic means of buy, selling, and communicating to become the most efficient and successful retailer, that the same technology will make them obsolete as an organization. Wal-

Mart will most likely adapt to the changes and survive. One day you may enter a Wal-Mart store to receive a doctor's examination and have your solar-powered SUV detailed, while listing to a Garth Brooks comeback concert.

Vision

The future of electronic retail is indeed the future of retail. However, electronic shopping will transcend the mere transaction and become a pillar of daily virtual activities. Online purchasing activities will be only a part of a new e-lifestyle. It is the transition and acceptance of the virtual world as part our concrete world that will allow e-shopping to conquer the retail consumer market. Electronic shopping will be faster and cheaper. It will be a time-liberator. The retail power of the Internet will be the catalyst of a new e-lifestyle age that will enable people to be more social, recreational, and fulfilled that appeals to ones social needs, entertainment needs, creativity, and curiosity. Retailers will have to provide an almost elitist shopping

Self Assessment

Fill in the blanks:

4. .... stores do not have standardized designs in comparison to the physical retail stores and product catalogs.
5. Not all customers have access to the web, as they do to the .... system.
6. As .... becomes the most sensible alternative to procuring needed goods and services, consumers will abandon their traditional views of shopping.
7. Different .... have numerous compatibilities and restrictions.
8. The .... benefit of online commerce is its ability to interact with the customers.
9. The .... of electronic retail is indeed the future of retail.
10. The importance of formulating a .... is understood by all small and big retailers.

Case Study

Information Systems in the Consumer Industry

This case study is about a small-medium sized apparel company retail division. This company, as it often happens, started on the idea of a specific line of products and later approached the retail channel in a naive way. The retail story began with the need of liquidating the company surplus in a company outlet; this was not enough so the company approached the outlets circuit. At this point it did happen that the product offer was not balanced to make a good service to the customer so the company had the need to work with the stock channel to get rid of what was left over.

By that time the company thought it has developed a culture of "retail" so it made a decision to approach the wholesale market with mono-brand locations and/or shop-in-shop experience in the department stores.

Almost always such a change implies a large item offer so the initial "product" idea spread over a "total look" vision with its corresponding design and production problems.

The company we are talking about moved from an offer of about 150 samples to about 500 pieces thus multiplying by three the whole paperwork.

Contd....

Notes

The retail division had a target of about 50 sales point, searched by a consultant and interiorly designed by a fashion architect.

The market: the company operated in the casual sportswear mainly on jackets. Geographical distribution was worldwide but mainly rich eastern countries and emerging countries, due to the average price of the product. The "ideal" customer belonged to a fairly rich class, he liked sportswear and he was fairly aggressive. The style actually intended to be aggressive enough to be chosen both by young and older people.

The existing retail IT system was originally chosen to support the initial outlet, so its main features were:

- Low cost
- Little and clear functionalities
- One level architecture (shops and main)
- single cash register in a shop
- Written and maintained by a near located, "friend" software house.

Quite a few problems had been solved on a "quick" solution attitude as volumes were small, no general approach.

The whole situation was worsened by the fact that no user came from a structured culture environment so they tent to solve their problems on an unstructured, personal way.

When the whole phenomena grew bigger two very dangerous behaviors came up:

1. The stockholder thought: "if it works for four it will work for five etc."
2. The software house used to say: "I am willing to grow up with you: tell me what you want and I will do it."

The company was really pushing the instrument over its project limits patching it over and over.

The economical situation: mainly due to the international crisis the company was financially overexposed and the shop system was a real weight to the balance sheet: out of a dozen shops existing only two or three were profitable, another two or three run even and the rest were both losing money and creating end-of-season unsold inventory. These numbers also did not take into account hidden costs that the company had to sustain to help the shop system; costs which are difficult to pin out but that are often consistent. I am talking about time spent by "structure" people like accounting and/or logistics to help the whole system run.

The turn point came when an outside consultancy firm had to investigate the economical situation on behalf of a new possible stakeholder. The problem was not so much the retail policy as a principle but the way it had been implemented. The company culture was industrial and everybody used to think to "customers" as being wholesaler, which means professionals, and not final customers.

Even if a retail manager and a merchandiser existed, real decisions were made by people coming from "product" oriented people so many the whole process was still very "fashion" and "industry".

The functional approach: to evaluate correctly the job to be done we went through a dimensional analysis of the needs of the retail department customers including all the aspects of "product"; "subjective" and "social" aspects.

For every view we tried to find as many "objective" data as possible trying to avoid preconceptions. This job was guided by an external consultant, a right choice in my opinion,

Contd....

as we thought that no internal resource could be enough professionally detached to guarantee a correct evaluation.

First thing the company did was to separate needs: wholesale and final customers. This meant almost doubling the job but it allowed checking whether the requests of the retail channel (both wholesaler and property shop) matched with the "real" final customer wishes.

Physically the job has been done through check lists compiled by hired personnel both in the case of retailer and of final customers. Actually final customers were divided into two major categories: customers contacted in shops (already aware of the brand) and people looking at apparel shop windows (apparel keen but not especially on the brand).

Every interview was then graded according to the expectation of satisfaction both as need and as answer to it. The complete results and the exact form of the questions are not public, what we can derive are the changes the company did in its customer policies.

Question sheet results: as far as final customers are concerned we found that:

- ***Product aesthetics and fashion alignment:*** The product was perceived as "fashion" but "middle low class" and definitely not "high class" as the company thought it was. Competitors were quite different from what the company dreamed they were. Some product categories were "identified" while other were considered "useless"
- ***Product reliability:*** Quality was recognized but the price was considered too high
- ***Product availability:*** Very low, even if much paper presentation was made on the product, the real possibility to find the item in the shops was low. Part of the problem related also to the fact that the company had decided not to offer on the web a certain number of "flagship" items
- ***Subjective recognition:*** Sales people "customer service " attitude was judged barely sufficient
- ***Subjective attention:*** Sales people technical support counseling was perceived as not sufficient and this contributed heavily to the perception of a middle low class brand
- ***Subjective empathy:*** Obviously related to individual sales people but, on the average, not very high; the brand was definitely not felt like "friendly"
- ***Social belongness:*** A strong feeling of group belonging was felt
- ***Social distinction:*** Fulfillment of this need is low, probably due to inadequate CRM systems.

For retailer the results were:

- ***Product aesthetics and fashion alignment:*** The product was perceived as "average"; the rating was better than the one given by final customers
- ***Product reliability:*** Good, little commercial returns and very few items with quality problems
- ***Product availability:*** Medium/ low due to poor respect of delivery dates
- ***Subjective recognition:*** Quite good, the "retail" customer service was considered very effective
- ***Subjective attention:*** Low, customer perceived some sort of company haughtiness
- ***Subjective empathy:*** Obviously related to individual agents but, on the average, sufficient
- ***Social belongness:*** No group feeling existed for retailers
- ***Social distinction:*** Low, probably due to inadequate CRM systems.

Contd....

Company actions: based on the results we just quoted, the company decided to

- Product offering returned to about 150-200 pieces for wholesaler and a further set of about 100 pieces distributed only in company stores. These last set of garments were essentially variations on existing garments, to simplify the design phase. The whole set could then cover the "total-look" scenario for the shops and satisfy brand-keen customers.
- ***Advertising:*** This moved into two directions. The first one tried to re-position the brand in a "high class" section via the relations with testimonials and events. The second activity (fashion and newspapers) was addressed only to the countries where a distribution network existed and not everywhere; only one new foreign market was to be pursued each year.
- ***Company shops:*** Only economical justified shops stayed open, with the new product offering. As far as new openings were concerned the strategy was to create mixed companies with local operators. These new middle-sized shops were addressed mainly on the sales of the well known products (jackets) and there was a one year starting period to reach balance break even, and no more.
- ***External wholesalers:*** The company recognized their importance and created a contact and support groups with the idea of improve their brand loyalty.
- ***Agents:*** The company cleared that a new attitude was needed: they were to become not only customer-order collector but also product and "prospect customers" proposers. Quite a few agents did not accept and interrupted their business relation with the company; the major criticism was that there was no longer an independent agent role but that we were talking of company show rooms and methods. This was one of the most difficult parts of the whole project.
- ***Company shops sale personnel:*** A long process of selection and education is still taking place to reach the correct standard in human relations and technical knowledge.
- ***Shop customer service:*** It became the real guideline of the retail division. Every aspect has been re-analyzed: from shop lay-out to packaging to personnel clothing and attitude. Mock customers are evaluating each site randomly and their results are discussed monthly at company level and twice-a-year with shop managers.
- ***Main IT system:*** The upgrade on this was very limited and it concerned almost only the quality of basic data regarding customer needs like delivery dates or quality indexes
- ***Retail IT system:*** This system has been changed very heavily. The operational part has been upgraded to a new instrument and also, even more important, new CRM systems have been introduced regarding both classical topics, like fidelity cards, and new topics like known and unknown person recognition. The possibility to follow the path inside the shop and on the front windows gave the opportunity to improve internal paths and increment the time passers-by would stop in front of the shop.

Generally speaking the reengineering is still going on but the results, up to now, are very encouraging in terms of customer service and of sales point balance break even where all the company shops are now correctly placed.

Question:

Critically analyze the case study.

Source: http://en.wikibooks.org/wiki/Information_systems_in_the_consumer_industry/A_case_study_-_retail

14.9 Summary

- The importance of formulating a retail market strategy is understood by all small and big retailers. To build a competitive advantage that can be sustained, retailers need to pay special attention to aspects like price, location, merchandise, service and communications.
- Operations, purchasing/logistics, market research, financing and technology, which determine the strategic positioning of the firm are also equally important.
- Retailers are facing an increasingly competitive environment due to the relatively slow growth of the retailing sector, increasing maturity and concentration of many retailing sectors, the emergence of new retailing formats such as the internet, changes in consumer expectations and expenditure, and competition from international retailers.
- The major drivers of competition within the industry are the threat of new entrants, the treat from substitute forms of retailing (that is, intertype competition), the bargaining power of producers, the bargaining power of shoppers, and the intensity of rivalry between firms.
- The relative balance between competing retailers and their competitive retail marketing strategies also influences the intensity of competition.
- E-tailing has resulted in the development of e-tailware — software tools for creating online catalogs and managing the business connected with doing e-tailing.
- A new trend is the price comparison site that can quickly compare prices from a number of different e-tailers and link you to them.

14.10 Keywords

Electronic Data Interchange: It is the structured transmission of data between organizations by electronic means.

Enterprise Resource Planning: A business management system that integrates all facets of the business, including planning, manufacturing, sales, and marketing.

E-tailing: Selling on retail goods on internet.

Marketing Information Systems: It refers to a programme for managing and organising information gathered by an organisation from various internal and external sources.

Radio Frequency Identification: It is the use of an object applied to or incorporated into a product, animal, or person for the purpose of identification and tracking using radio waves.

Retail Management Information System: It includes the use of hardware, software and procedures to manage activities such as planning, inventory control, financial management, logistics and point of sale transactions.

14.11 Review Questions

1. Discuss about the importance of IT in retailing.
2. What do you know about integrated systems and networking?
3. Explain the marketing information system.
4. Describe the retail management information system.
5. What are the components of ERP?

6. Discuss about Electronic Data Interchange.
7. Explain bar coding.
8. Discuss about Customer Database Management.
9. What do you know about electronic retailing?
10. What are the limitations of the Web?
11. Discuss about the flow of information and products in supply chain.

Answers: Self Assessment

1. RFID
2. Retail
3. EDI
4. E-tail
5. Postal
6. E-shopping
7. Browsers
8. greatest
9. Retail Market Strategy
10. Future

14.12 Further Readings

Books

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